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**The Development of a Corporate, Marketing, Operations, and Financial
Strategy for a Swiss Cosmetics Start-up**

by

Swapnil Deshmukh and Axel Schmidt

2010

A Management project presented in part consideration for the degree of MBA
in Finance and MBA in Entrepreneurship respectively.

Executive Summary

The aim of this Group Management Project is to explore the different strategies that can be implemented by a Switzerland based decorative cosmetics start-up business owned by one of the author of this document Mr. Axel Schmidt. The authors of this project Mr. Swapnil Deshmukh and Mr. Axel Schmidt are pursuing their MBA in Finance and MBA in Entrepreneurship degrees respectively and thus have provided insights gained from the overall MBA programme and particularly in their respective specialisations.

The document consists of seven chapters elaborating on corporate, marketing, operations and financial strategies for the start-up business in decorative cosmetics. The Swiss decorative cosmetics industry is characterised by a fierce and turbulent market conditions dominated by multinational cosmetics firms.

The first chapter introduces the authors and their reason and motivation behind this project, the concept of family start-up businesses, outsource production (private label) and the company lipCat Private Limited.

The company lipCat Private Limited will indulge in selling decorative cosmetics products in the low price segment targeting young Swiss women on an online basis focussing only in Switzerland at its nascent stage. However, depending on the success of the business the company aspires to expand its operations to selected European countries.

The second chapter reveals the corporate strategy of the company and includes the analysis of Swiss cosmetics market. Strategic tools such as SWOT, PEST and PORTER'S FIVE FORCES have been employed to gain more insight into the internal and external factors affecting lipCat. It also includes the analysis of its competitors, mentions the values, mission and the vision of the company owners. The chapter also mentions that lipCat will pursue a cost focus strategy based on its existing limited resources.

The third chapter deals with the marketing strategy and defines marketing objectives of the company and underlining the different marketing mix options that lipCat plans to implements during its business operations. One of the major tools used in this chapter is consumer segment analysis, also different marketing steps such as creating an USP, Value proposition and copy strategy and brand personality. It also lays down the marketing budget and the marketing roadmap for lipCat. It also provides for certain marketing strategies that should be specifically implemented by start-up businesses.

The fourth chapter exposes the operational activities of the business. It describes the process of the company starting with its purchasing the products from its supplier based in US to selling the products in the local Swiss market.

The fifth chapter divulges the financial strategy of the company. It explore the existing financial structure of the company and how company can finance its future growth and expansion with its limited available resources. It also suggests for specific financial options that a small size business firm can explore to succeed. The chapter also includes and explore different strategic options that the company can explore in order to gain financial advantage. Finally it provides for different exit strategies in case of failure as well as success of the business.

The sixth chapter mentions strategy implementation roadmap for lipCat based on the previous four strategy chapters.

In the seventh chapter we conclude that lipCat as a business has certain negative aspects, such as reluctance of women to purchase decorative cosmetics over the internet and has limited resources to compete in the highly competitive market. However we also believe that the existence of a niche market, high flexibility and very low fixed costs will allow lipCat to exploit its potential in a manner that will yield positive results for the company.

Acknowledgement

We would like to take this opportunity to express our gratitude to Mr Scott Goddard and Mr Chris Mahon for supervising the collective part as well as the respective individual parts of this Management Project. Their valuable and constructive advice has been instrumental throughout all the phases and successful completion of the project.

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CHAPTER ONE: INTRODUCTION

The purpose of this Management Project is to develop a coherent and comprehensive conception which facilitates the successful entrance in the Swiss decorative cosmetics market of the small Start-up business lipCat Ltd. Accordingly, a Corporate, Marketing, Operations, and Financial strategies have been framed. The practically applicable and realisable recommendations are underpinned by relevant academic literature. The MBA programme at Nottingham University Business School has endowed the authors the requisite knowledge to formulate such an integrated strategy paper along with Mr Deshmukh's prior education and experience in the field of Banking and Finance and Mr Schmidt's prior education in Marketing. The Swiss decorative cosmetics market is fiercely competitive, whereas lipCat's resources are limited. In this paper a feasible yet an effective overall strategy has been developed to enable lipCat to penetrate, compete and sustain in the market.

The individual part of this project consists of analysis of e-commerce industry by Axel Schmidt which reflects the variant of entrepreneurship and a financial analysis of lipCat Pvt. Ltd by Swapnil Deshmukh which forms of the variant of Finance of the MBA programme.

1.1 Characteristics of Family Businesses

lipCat is a family business start-up. Family businesses have certain advantageous attributes and resources. An elaborate discussion of these can be found in Appendix 4.

1.2 Small Business or Entrepreneurial Venture

lipCat is an initiative and embodiment of concepts such as innovation, creativity, and Entrepreneurial knowledge and spirit gained at the University of Nottingham Business School by its creator. However, can we speak of lipCat as an entrepreneurial venture in the true sense or is it just a small business? Incorrectly, entrepreneurship is often equated with the ownership of a small business. Although there is a certain overlap between these two domains, Martin (1982) points out that someone who owns an enterprise is not necessarily an entrepreneur. Vesper (1980) stressed that entrepreneurs can also be found working within larger organisations and that many business owners never intend to grow their ventures larger than they think is manageable.

Schumpeter (1934) specified entrepreneurs as people who introduce new combinations of productive means – innovations (Backhaus, 2003). Carland et al (1984) provide two definitions – surprisingly, both comprise characteristics which are true for lipCat:

“A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices” (p.79) whereas “the principal goals of an entrepreneurial venture are profitability and growth and the business is characterised by innovative strategic practices” (p.79).

It is obvious that the main criterion to classify lipCat remains the degree of ‘originality’ and innovativeness. It is difficult to tell when precisely something is truly new or innovative. Maybe it helps to recall the current situation in the Swiss decorative cosmetics market. Currently, no brand is making use of social network marketing as their predominant tool; the low-end providers focus solely on POS activities and the brand image of the well-established or top brands is usually inconsistent with such a modern tool that is sometimes difficult to control (e.g. momentum of so called ‘viral campaigns’). The authors believe that lipCat exhibits a rather innovative, unconventional approach to promoting its products (details in section Marketing Strategy). Furthermore, although lipCat does not introduce a product or process innovation, it is the sequence of little meanderings from the industry standard which leads to a certain originality of the business strategy. What makes a definite attribution even more difficult is the interesting constellation of lipCat’s organisation structure of which we could refer to as an ‘entrepreneurial family’. Growth and profitability are, of course, important, yet not at any price. The founders are sceptical of venture capitalist firms. Moreover, the family sees it as challenge to create a successful business with limited resources and the creator of the business idea also feels a strong need for independence.

In an attempt of a Solomonic determination, one could say that it does not really matter in which category a new venture strictly falls – as long as the people involved are passionate, hard-working and deliver products that the market values.

1.3 Outsourced Manufacturing

lipCat follows the strategy of outsourced manufacturing. This allows the firm to concentrate on these areas it can successfully cope with. An explanation in more detail is placed in Appendix 5.

1.4 Summary of lipCat Ltd.

lipCat™ is a private limited company, registered at Companies House Cardiff on 1st September 2009 with its registered office at 1A Pope Street, London, SE1 3PH, United Kingdom. However, the business activities of the company will be carried at its Switzerland Branch located at Hoeheweg 7, 3700 Spiez, Switzerland. The proprietors of the firm are Mr. Axel Schmidt, Mr. Eberhard Schmidt and Mrs. Eva Schmidt with all being managing partners in the company with a share holding of 20%, 40 % and 40% respectively. The business activities will be carried out from the family home of the proprietors in Switzerland at an initial stage and might be expanded later on depending on the success of the business.

lipCat™ Ltd. will indulge in selling high quality lipsticks acquired from a 'private label' manufacturer based in New York, United States of America only through internet. However, the company plans to expand its selling activities to other cosmetics products depending on the success of the initial idea. Also, other distribution channels such as local stores, supermarkets might be exploited later on by the company. The business activities will be limited only within the geographical boundaries of Switzerland in its nascent stage; however, it has plans to expand its business to the neighbouring countries at a later stage.

CHAPTER TWO: CORPORATE STRATEGY

A business organisation requires direction to proceed with and pursue its goals and objectives. It is imperative that it formulates plans and policies to surpass obstacles surfacing in a turbulent competitive market and overcome and sustain itself in the market with a growing profitability. Such plans and policies provide the firm with an apt direction to be successful. Such a direction developed, adopted and followed by business firms is known as 'Corporate Strategy'. (Knights & Morgan, 1991).

Corporate Strategy has been termed as the 'rational technique' for managing businesses in a changing environment (Knights & Morgan, 1991; Ansoff, 1965; Hofer & Schendel, 1978; Porter 1980, 1985). It provides the foundation for developing and implementing all other strategies such as marketing, operations and financial strategy as well (Barton & Gordon, 1988).

This chapter elaborates lipCat's goals and objectives and provides with plans and policies to achieve them by employing published strategic tools.

Strategic Entrepreneurship

The disciplines of Strategic Management and Entrepreneurship focus on growth and the creation of wealth; however, they have a slightly different main focus. The former is concerned with competition (namely the development of a sustainable competitive advantage), the latter with opportunity recognition. The fusion of advantage-seeking and opportunity-seeking behaviour, 'Strategic Entrepreneurship', promises a higher rate of wealth creation than each discipline could achieve on its own. In the past, start-up businesses have been by trend more successful in the identification of entrepreneurial opportunities than large corporations; however, new ventures often fail to fully exploit those opportunities, since they are not able to develop a meaningful, outlasting competitive advantage – usually, the speciality of large corporations (e.g. economies of scale). In essence, Strategic Entrepreneurship is taking entrepreneurial actions with simultaneous consideration of strategic perspectives. (Ireland et al, 2003)

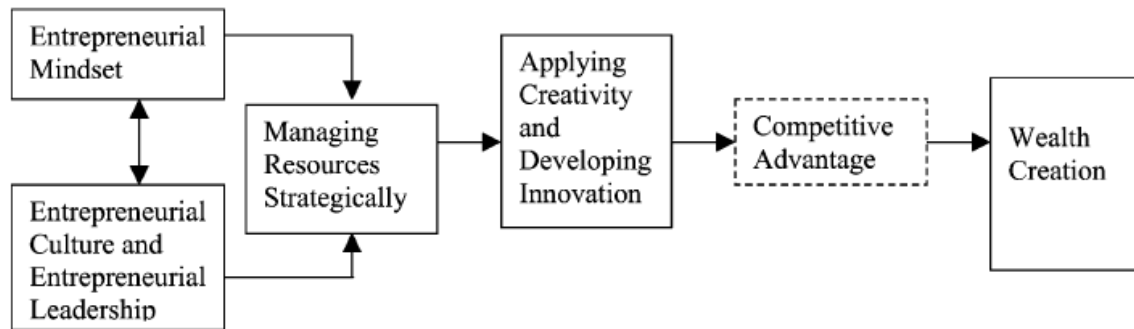


Figure 1: Model of Strategic Entrepreneurship. Source: Ireland et al (2003), p. 967.

Figure 1 shows a model of Strategic Entrepreneurship as recommended by Ireland et al (2003). An entrepreneurial mindset is imperative in order to recognise valuable opportunities – for instance, these can result from information asymmetries, demographic constellations or changes in regulation. The business has to be focused on growth; hence it should encourage flexibility, creativity and striving for continuous innovation among its employees. An entrepreneurial culture facilitates the strategic management of the firm’s resources; risk-taking behaviour is encouraged, organisation-wide learning is promoted, and there is an atmosphere of failure tolerance. Good entrepreneurial leadership is a necessity; employees have to be influenced by the seniors to manage resources strategically as well. An effective leader in this sense imparts the importance of entrepreneurial opportunities, constantly questions the current dominant logic, and supports innovations, even if they constitute a danger to the current business model. The firm’s resources – financial, human (knowledge and skills), and social (relationships within and outside of the organisation) capital – have to be managed strategically. This means that the portfolio of resources has to be structured, resources have to be bundled so that capabilities can be developed, and, finally, these capabilities must be shared with all business units. Creativity is a precondition of innovation. By eliminating obsolete goods, services, and production methods, innovations bring advancement and can lead to a sustainable competitive advantage. The competitive advantage in turn creates further wealth. (Ireland et al, 2003)

Continuous organisational change is inevitable in order to hold one’s ground in today’s fierce competitive environment. Initiating and managing organisational change seems to be easier for smaller entrepreneurial businesses due to their inherent flexibility. This might be one reason why small ventures often are more innovative than large corporations. (Ireland et al, 2001)

The implication for lipCat is that it will certainly not be enough having identified a potentially valuable opportunity in one market segment. In order to be successful in the long run, lipCat has to

perpetuate an entrepreneurial mindset, while at the same time manage its (very limited) resources strategically. The industry of decorative cosmetics is characterised by economies of scale, sufficient funds for mass communications and rapid product innovations. In the following, an effective corporate strategy shall be developed for lipCat with the above tenets in mind.

Cosmetics Market in Switzerland

The Swiss colour cosmetics market is stable and mature due to which many companies indulge in frequent innovations and value added products. In lipstick advertising, the attribute of longevity or moisturisation is being highlighted; tastes and flavours are becoming more sophisticated. In 2008, 28% in terms of colour cosmetics value has been sold by beauty specialist retailers; department stores achieved 21%, and supermarkets increased their share to 19%. The consultancy service of beauty specialist retailers and department stores is seen as a major competitive advantage. The Swiss retailer Migros, for instance, offers a wide range of brands and own labels in the field of colour cosmetics. In 2008, the three biggest players in the market regarding value share are L'Oréal (23%), Procter & Gamble (21%), and Beiersdorf (12%). Since fashion trends tend to change rapidly, lip products will stagnate over the period from 2011 to 2013. (Euromonitor International, Colour Cosmetics Switzerland, 2009, pp.1-3)

The biggest brands are trying to overtrump each other in TV commercials, magazine adverts, outdoor advertising, and online ads. Brands that advertise heavily typically do not place emphasis on the price – rather they focus on the promised effect or proudly present international celebrities. The same is true in retail stores that sell premium cosmetics. In supermarkets and department stores there often are special, discounted offers and especially the low-end or white label products compete as well on price. It is very difficult and expensive (usually, the retailer charges a listing fee) to gain access to a tiny bit of shelf space in the supermarkets and department stores; there is a crowding out going on.

The Five Competitive Forces Analysis

It is imperative for any business organisation to establish itself and penetrate into the market, to be aware of the existing business environment and the factors that might affect or influence its entry, position and most significantly its future growth and development. (Dobson et al, 2004)

A structured framework to analyse these factors should be employed by any business organisation. The most common and effective framework is Michael Porter's Five Forces framework. This framework enables the business organisation to analyse the competitive environment and provides a precise understanding of the forces and factors that may affect the profitability of the business. The basis of Porter's Five Forces framework is that the forces facing the industry play a pivotal role in determining and affecting the profitability of the business organisation. (Dobson et al, 2004)

Michael Porter's Five Forces Analysis helps a company to estimate the nature and intensity of the competition in the industry in a structured manner. It is based on taking into consideration all the forces that are likely to affect the company and also the extent to which they will be influential in a company's growth, sustainability, success and profitability. If an organisation analyses these forces and understands how they operate in the industry, it can develop strategies to influence and conquer them so that they can prove lucrative for the company and emerge ahead of competitors. (Dobson et al, 2004)

The below analysis will provide a basis for lipCat's strategy and plan to penetrate in the Swiss decorative cosmetics market. Figure 2 shows the Five Forces analysis of the Swiss decorative cosmetics market.

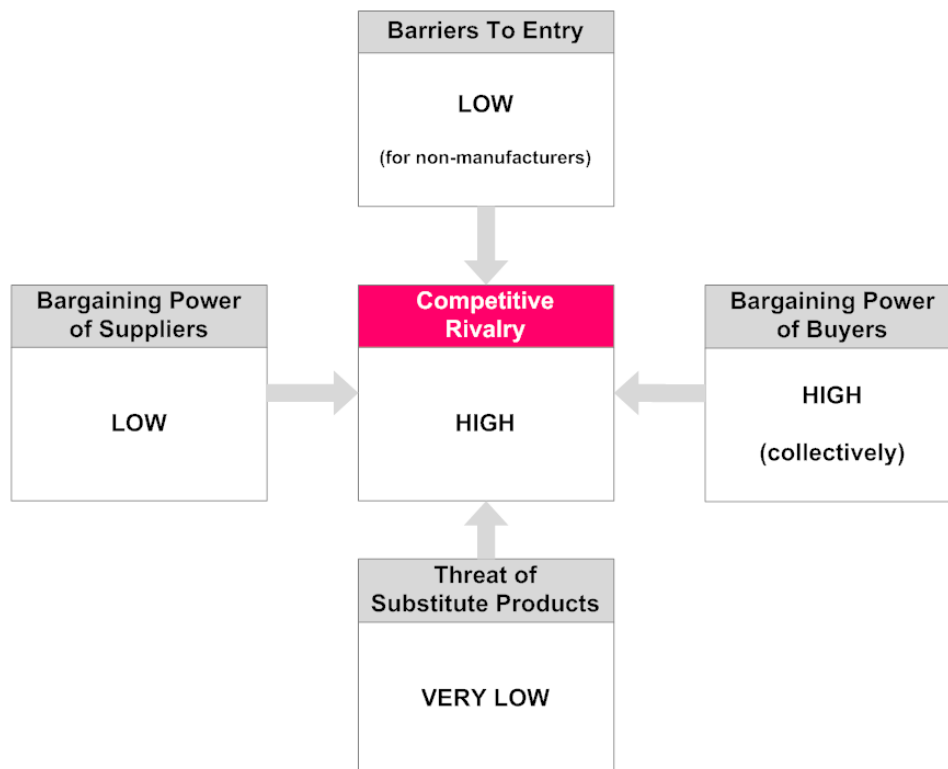


Figure 2: The Five Competitive Forces in the Swiss Decorative Cosmetics Industry.
Source: own depiction based on Porter (1980).

Barriers to Entry: The cosmetics industry is characterised by monopolistic competition, as large number of firms attempt to differentiate their products and at the same time try to control their pricing. This type of market structure generally has low entry to barriers; however government regulations and distribution channels can be major barriers to entry in the cosmetics industry. Barriers to entry as a manufacturer are relatively high as a cosmetics manufacturing business would require skilled employees such as scientists, designers and skilled labourers to perform the intricate operational functions. However, for cosmetics retailers or private label customers such as lipCat the barriers are low as it would not have to indulge into any of the aspects of manufacturing or production. Also, incumbent players have the advantage over smaller players in the decorative cosmetics industry.

Competitive Rivalry: High

Relatively Large number of firms: Stiff competition among High Street retail market.

High fixed costs: Companies make an optimum use of the infrastructure they already have and try to control all production streams resulting in price wars within some strategic groups, brands competitions and assortments wars.

Product differentiation: Products in this market have high brand identification which reduces rivalry

Bargaining Power of Suppliers: The power of suppliers is very low as there are many reputed providers of chemicals/ingredients for cosmetics globally. Hence, it is relatively easy for the buyer to change a supplier. Also, there is an extensive reliance on third party suppliers for contract packaging, contract filling and contract formulae development.

Bargaining Power of Buyers: High

Buyers can choose from a wide range of products due to the availability of many small and large retail players. As a result cost of switching between the retailers along with changing behaviour and fashion choice is also very low. Major customers change their focus from fashion to socio-economic factors and quality. Pricing details in the industry are easily accessible to the customers through internet, for instance price comparison portals, availability of online products and increasing e-marketing.

Threat of Substitute Products: It is very low or rather almost non-existent in the decorative cosmetics market (which is lipCat's focus) the only alternative to using decorative cosmetics would be to abandon make-up completely (pure, natural beauty) or to use "permanent make-up" which can

cause permanent medical damage to the human body, such as scars on the face. (Medterms, no date).

The cosmetics industry in general deals with a wide range of products. This means that what one store offers will likely to be available at another store. Retailers offering products that are unique have a distinct or absolute advantage over their competitors. However, the industry faces competition in substitutes. (Lip-gloss, lip-balm, lip liner). Initially since lipCat will indulge only in selling lipsticks, it could face threat from other lip products mentioned above.

PESTLE Analysis

It is imperative for a firm to be aware of how well it can utilise its available resources and capabilities to influence the business environment in its favour. A general audit of environmental influences affecting the firm can prove be beneficial to the organisation. It entails the strategist sensing environment; get a general feedback on how the environmental forces affect the organisation. Such an analysis is known as PESTLE, i.e. Political, Economic, Social, Technological, Legal and Environmental analysis for the business environment. (Dobson et al, 2004; Kay, 2000).

The below analysis depicts the analysis of Switzerland how these factors can affect and influence the growth of lipCat in the country.

Political Factors: The Swiss confederation founded in 1291 is made up 20 cantons and six-half cantons. Switzerland has performed excellently on governance as well as in terms of regulatory quality and implementation of the principles of rule and law. Due to the reluctance of the Swiss population to join European Union, the country has experienced constrained growth. However, to enhance the growth and development of the country, the government has entered into a number of bilateral agreements with regards to trade, taxation policies and labour movements with the European Union and other countries in Europe. Since lipCat is registered in the United Kingdom, it will benefit from the bilateral tax treaty that exists between the United Kingdom and Switzerland. (CIA World Factbook; Euromonitor, 2009)

Economic Factors: The well developed banking system has been the backbone of the Swiss economy's industrial growth. In order to enhance their international competitiveness the Swiss government has brought its economic practices into conformity with the European Union. The financial crisis that started in 2008 and engulfed most developed economies in the world had its

impact on Swiss economy as well. The leading banks in the country suffered heavy losses; however, the economy has shown symptoms of recovery in the year 2010.

As a result of the financial crisis the average consumer spending on cars, clothing, footwear, electronics and entertainment decreased in this period. However, the Swiss cosmetic industry has remained immune from the financial crisis of 2008. An average Swiss consumer still perceived cosmetics and toiletries as affordable goods. Hence, the fact that Swiss economy is already on the path of recovery can prove beneficial to lipCat as it plans to establish itself in the Swiss cosmetic industry. The Swiss economy does not suffer from inflation related problems, with average inflation being around 1 % for the past six years. The existing tax treaty between United Kingdom and Switzerland favours lipCat. As per the double taxation convention signed in London on 26th June 2007, lipCat will be eligible for tax exemption in United Kingdom and will be taxed only in Switzerland as per the corporate tax rate in Switzerland. (HM Revenue & Customs; CIA World Factbook; Euromonitor, 2009)

Social Factors: Switzerland has always depicted outstanding human development indicators. It has one of the best qualities of living in the world. An excellent centralised education system, high quality of life and declining unemployment can create a highly conducive environment to start and establish a business. lipCat plans to exploit the already existing and well developed social and demographic structure of the country. Almost one in three children aged 7-19 spend their pocket money on cosmetics and toiletries; hence age segment of 15 – 19 could be an easy target for lipCat. (Euromonitor, 2009)

Technological Factors: The crucial factor underlining the success of Swiss economy is technological innovation supported by excellent research and development facilities. Switzerland ranks well above the EU average in terms of innovation performance and are the joint leader with Germany in Europe. (Euromonitor, 2009)

Switzerland's highly developed technology, communications and media (TCM) market offers exciting prospects and business opportunities. As a result of highly developed technology, Swiss population has easy access to internet, television, radio and other various types of media. Social networking is quite prevalent among younger generation. About 65 % of the total internet audience in Switzerland visit at least one social networking site such as facebook, twitter, skyrock.com, with facebook being the most popular with about 1.7 million visitors; a growth of almost 500 % every year. (Euromonitor, 2009)

lipCat's main domain of marketing and selling its products will be internet for the initial years. It plans to use social networking sites to market its products, hence with such high technological advancement and all the above mentioned factors will prove beneficial for lipCat's strategy. (Euromonitor, 2009)

Legal Factors: Switzerland has a very well developed legal framework as compared to other developed nations; hence the investment climate for entrepreneurs is very conducive without any major hassles. It ranks 16th as per World Bank's ease of doing business index. Corruption, red-tape is almost non – existent in Switzerland. Since lipCat is a start up business venture, these factors could contribute in a very significant manner for its set-up and future growth. Cosmetics Directive 76/768/EEC first published in the year 1976 is responsible for maintaining and ensuring that Cosmetic business in Europe adheres to certain safety standards and regulations. However, since lipCat will indulge in obtaining cosmetics products from a private label based in United States it will only have to ensure and adhere to clauses of Cosmetics Directive 76/768/EEC such as packaging and labelling, whereas the private label based in United States will have to adhere to other to clauses with regards to manufacturing, product ingredients. (Euromonitor, 2009)

Environmental Factors: Since the introduction of the concept of ethical trading, sustainability, environmental protection; most consumers across the globe are well aware and cautious about the ingredients used to make the product that they use. Educational articles in popular fashion tabloids, beauty and fashion shows on television are the main sources through which consumers become aware about the cosmetic products that they use. Hence, lipCat will have to ensure that its products with regards to ingredients, labelling and packaging are safe to use and do not cause any health or environmental hazards. (Mintel, 2009)

Figure 3 summarises these findings.

POLITICAL	ECONOMICAL	SOCIAL	TECHNOLOGICAL	LEGAL	ENVIRONMENTAL
<ul style="list-style-type: none"> ●Bilateral agreements with UK with regards to trade, taxation policies. 	<ul style="list-style-type: none"> ●Negligible impact of financial crisis on Swiss cosmetics industry. No double taxation. Low inflation rate in Switzerland. 	<ul style="list-style-type: none"> ●Highly developed social and demographic structure in the country. 	<ul style="list-style-type: none"> ●Highly developed technology with widespread media and communication channels. Social networking through sites such as Facebook or Twitter very popular. 	<ul style="list-style-type: none"> ●Well developed legal framework. Cosmetics Directive ensuring safety of cosmetics products. 	<ul style="list-style-type: none"> ●Consumers aware about ethical trading and sustainability due to the educational articles in fashion tabloids.

Figure 3: PESTLE Analysis. Source: own depiction.

SWOT Analysis

SWOT refers to Strengths, Weaknesses, Opportunities and Threats. The aim of this analysis is to enable a company identify its existing strong positions and weaknesses, available opportunities that can be exploited to its benefits and possible threats that it could be facing in the market. It facilitates the process of developing strong strategies and exploiting and overcoming the external environmental factors (Opportunities & Threats) by analysing the internal factors (Strengths & Weaknesses). (Dobson et al, 2004). Figure 4 illustrates lipCat's SWOT matrix.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ● Extensive management, marketing, strategy, and entrepreneurship knowledge ● Office, storage, and work space in family home ● 6 hours time for operations per day ● Internal funding allows small-scale launch of business ● Strong entrepreneurial spirit and tradition in family ● High flexibility (no contracts with suppliers, no rentals, etc.) ● Family assets would facilitate the raise of external funds in the future ● Access to a local homeworkers network ● Very reliable main supplier ● Steady cash flow injection from family and earned income ● The manufacturing origin of lipCat's products is New York ● lipCat can offer decorative cosmetics in a very large variety of shades 	<ul style="list-style-type: none"> ● Financial resources do not allow the establishment of an own retail outlet or the amply use of mass media ● Currently no employees ● No prior experience in the field of decorative cosmetics ● One founder is part-time employed, one founder is full-time employed, hence assistance can be provided only in the evening or on the weekend
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ● Negligible impact of financial crisis on Swiss cosmetics industry ● The success of the brand 'essence' in the very-low-priced segment and the fact that MNY (sub-brand of Maybelline Jade New York) recently entered this segment, illustrates the large potential there ● There are interesting retailers and service companies that do not yet sell cosmetics (e.g. independent fashion stores, gyms, filling stations, branches of the Swiss Postal Service, etc. This might be of importance in case lipCat needs to acquire distribution partners ● The importance of the internet as a shopping channel is increasing throughout Europe ● The products that lipCat is selling, can be shipped for the rate of a letter instead of a parcel ● The quality of the lipsticks sold by lipCat's main competitor 'essence' is very poor and the variety of colours is very small 	<ul style="list-style-type: none"> ● Decorative cosmetics are a typical experience good; customers cannot be sure about the product's quality and characteristics prior to the purchase. Many women hesitate or refuse to purchase decorative cosmetics over the internet ● The major supermarkets, department stores and perfumeries already have strong ties and distribution agreements with well-known cosmetics brands

Figure 4: SWOT Analysis. Source: own depiction.

Annotations to this SWOT matrix are provided in Appendix 6.

Competitor Analysis

Competitor analysis provides insights into the strategic weaknesses of incumbent players that can be exploited. Furthermore, its proactive character allows the analyst to anticipate the competitors' likely reaction to the own company's moves and potential environmental changes. Finally, the results of a formal competitive analysis can enhance the firm's strategic agility. (Bensoussan & Fleisher, 2008, p.50)

2.6.1. Potential Competitors

There is not really a threat from an unanticipated player entering the Swiss colour cosmetics market, since there is not really a substitute for those kinds of products. However, it is possible that retailers or other firms that have not yet made an appearance in this market, start offering their own private labels. In the premium category of the market, it is very unlikely that top brands will pursue a trading-down strategy or extend their product lines downwards; though their often multi-national parents could introduce low-end sub-brands.

2.6.2. Incumbent Players in the Market

In the context of this part of the environmental analysis, a total of 23 brands that offer lipsticks and lip gloss products have been categorised and compared with the help of a standardised template (see Appendix 17). The analysis on hand is not exhaustive – especially in the premium and also in the very low-priced segments there are some more competitors not mentioned here. The reason for this is that they are either very similar to already presented brands or their market share is negligible.

Figure 5 below shows a matrix that reveals the current positioning of the most important players in the Swiss lip products market – the criteria 'price level', 'age', and 'brand identity / theme' have been applied.

PRICE	very low		rather low		medium		rather expensive		premium			
AGE	12 to 29		30 to 49		12 to 29		30 to 49		12 to 29		30 to 49	
Brand Identity	12 to 29		30 to 49		12 to 29		30 to 49		12 to 29		30 to 49	
Girl												
Natural Beauty												
Self-assured Woman												
Model / Celebrity / Hollywood Star												
Diva												
Trend-setter												
Private Label												

Figure 5: Positioning map of the 23 most influential players in the lip products category. Source: own depiction with data from Bauer Media Beauty Guide 2008 & Euromonitor International Brand Shares Switzerland Colour Cosmetics.

The hatched areas indicate market positions that would be highly inconsistent or impossible. All the brands have been assigned to one of five price levels as can be seen from Figure 6.

very low	rather low	medium	rather expensive	premium
< CHF 5.00	CHF 5.00 - 10.99	CHF 11.00 - 16.99	CHF 17.00 - 26.99	≥ CHF 27.00

Figure 6: The five price levels used for categorising the incumbent brands. Source: own depiction.

Furthermore, all brands have been grouped according to the typical age of their customers who show the highest affinity to them (based on a representative market research study in Germany with 1,978 female participants aged 20 to 69). Finally, the brands have been classed corresponding to their brand identity or dominating theme.

Except of the very low category, there are always many competitors who share similar criteria. It is interesting to know that the low-end brand MNY has just recently (June 2010) been launched in Switzerland. This constellation and circumstances will be presented in more detail in a subsequent section.

No brand has currently primarily occupied the 'low-end for women above 30' or 'premium for women under 30' market spaces – this is most likely due to too small remaining customer base here. The brand identity 'Model/Celebrity/Hollywood Star' and 'Trend-Setter' are especially popular. In the very low category, it is common for brands to possess the 'girl' image.

2.6.3. Strategic Group Analysis

A Strategic Group Analysis shall configure the firms that share similar strategic characteristics or pursue a similar competition strategy. Usually, for this purpose two sets of characteristics are deployed. (Dobson et al, 2004) There are many possible attributes that can be used. Figure 7 presents a reasonable version of a Strategic Group map concerning the Swiss colour cosmetics market.

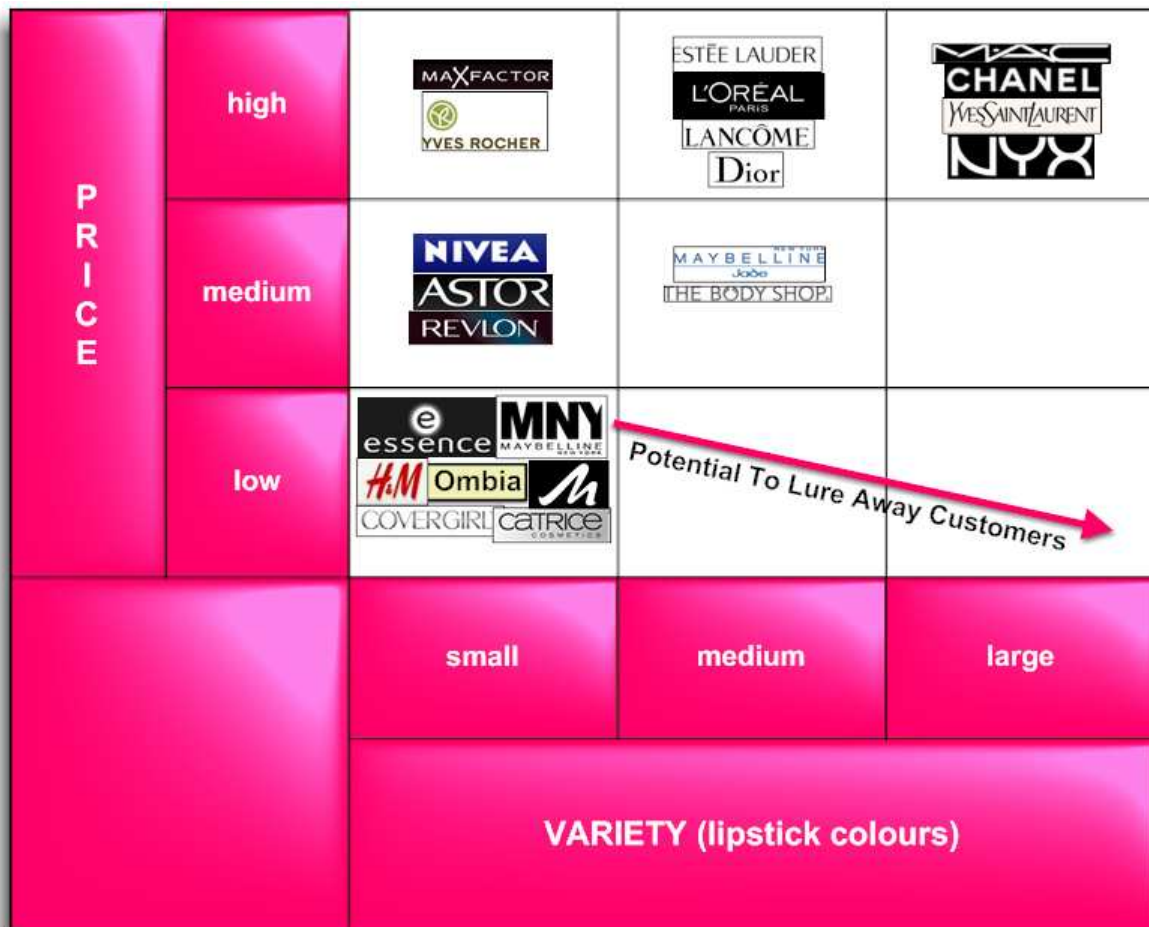


Figure 7: Strategic groups resulting from a product- and price-related segmentation. Source: own depiction.

On the X-axis, there are three specificities of 'variety' (lipstick colours): small (1-25), medium (26-39), and large (40+). The specificities low, medium, and high are true for the Y-axis, which displays the price level. The two lowest price categories and the two highest ones (as shown in Figure 5) have been combined to one in each case. As a result, there are six distinguishable Strategic Groups: 'low price – small variety', 'medium price – small variety', 'medium price – medium variety', 'high price – small variety', 'high price – medium variety', and 'high price – large variety'.

The high-end of the market is almost impossible to enter for a start-up with very restricted financial resources such as lipCat. In the medium price level, there are already some well-established brands who offer a medium amount of variety. Resulting from the application of this strategic tool, lipCat's major strength of being able to offer very large variety combined with exceptionally low prices, seems to be especially relevant in the low-end market. By exploiting the inability of this quadrant's incumbents to deliver exactly the same, lipCat could lure away some of their customers. It is obvious that with the price going down, so does variety. Since lipCat has no minimum order quantity obligations per colour, accompanied by extremely low fixed costs, no one of the existing players could profitably extend their range of colours to the level lipCat can. Although this might not be a sustainable competitive advantage in the long run, it would certainly be a temporary one that gives lipCat a certain degree of uniqueness.

2.6.4. The Extended Competitors Group

Companies in the medium price category can be regarded as extended competitors of lipCat. The founders are convinced that lipCat's product quality is absolutely comparable to them. However, some members of this group have a very strong position in the market and excellent brand image. Example pictures and product shots can be found in Appendix 17. The following brands fall into that category: Nivea, The Body Shop, Maybelline Jade New York, Astor, and Revlon. A description of these competitors in more detail can be found in Appendix 7.

2.6.5. The Direct Competitors Group

Grant provides a four-step framework for competitor analysis, based on Michael Porter's work. The application of this systematic approach can help to better understand one's rival. As a first step, the competitor's current strategy shall be portrayed. The second task is to outline the rival's objective in the specific market. Third, one should try to describe the opponent's assumptions concerning the industry and itself. As a last step, the other's capabilities and resources have to be listed. (Grant, 2005, p.114-116)

The Strategic Group 'low price – small variety' is divided into three sub-groups as illustrated below.

Sub-group 1: Non branded / private labels / low cost

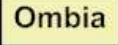

		
STRATEGY How is the firm competing?	low-cost / very limited choice / private label / no advertising / online: no offline: ALDI supermarket stores	low-cost / very limited choice / under H&M umbrella brand / no advertising for cosmetics / online: own online store (Germany) offline: H&M stores
OBJECTIVES What are the competitor's current goals? Is Performance meeting this goals?	capture a share in the low-end market from consumers who do not need branded cosmetics and ask for low prices	maximise the cross-selling potential (range is being updated every season and attuned to the fashion collections)
ASSUMPTIONS What assumptions does the competitor hold about the industry and itself?	there is a large enough segment that buys private label cosmetics	although customers know that H&M's core competence is not manufacturing cosmetics (this is outsourced), the H&M brand is strong enough to make young consumers buy
RESOURCES AND CAPABILITIES What are the competitor's key strengths and weaknesses?	tremendous financial resources (ALDI's 2007 turnover was EUR 27bn) / huge purchasing power and economies of scale / more than 110 stores in Switzerland / trusted brand (food) / quality perceived as good --- offers no advisory service / stores very functional, not attractive / many people dislike the 'cheapness' Aldi stands for	strong financials / strong international brand / appealing to the younger segments / 73 stores in Switzerland / complete fashion range under one roof / cosmetics can be displayed in a professional manner (in-store music, generous space, brand colours, etc.) --- no true credibility as a cosmetics brand / cosmetics are secondary / customs duty applicable when ordering from German website)

Figure 8: In-depth Competitive Analysis of H&M and Ombia.
Source: own depiction with data from Handelsblatt, ALDI and H&M.

Sub-group 2: branded / low cost




	 MANHATTAN	 COVERGIRL	 CATRICE
STRATEGY How is the firm competing?	low-cost / small variety of shades / focused on brand equity / intense advertising / few celebrity endorsement / online: only Amazon (Germany) offline: retail stores, supermarkets, department stores	low-cost / small variety of shades / focused on brand equity / very intense advertising / a lot of celebrity endorsement / online: Migros supermarket's online store offline: Migros supermarket stores	low-cost / small variety of shades / relatively young brand tries to build brand equity / no celebrity endorsement / online: no offline: supermarkets (Migros, Coop), department stores (Manor)
OBJECTIVES What are the competitor's current goals? Is Performance meeting this goals?	increase the market share in the mass market / catch up with Maybelline Jade New York and Covergirl in terms of sale / brand share has been stable over the past three years	defend the leading position in the lower end market (by retail value) / reduce the gap to Nivea / brand share has been very stable over the past five years	establish the young brand (launched in Germany in 2006 / not long ago in Switzerland) / occupy the brand image 'luxury for less' / market share (including 'essence') is 0.7% in 2009 by retail value / volume leader in Switzerland, Germany, Ireland, and The Netherlands / actively looking for interesting acquisitions / sells in 30 European countries / has more than 13,500 active POS / expansion to the US, Asia, Africa, and the Middle East
ASSUMPTIONS What assumptions does the competitor hold about the industry and itself?	Manhattan sees itself as a successful player with a decade-long history / they set new trends and benefit from their high brand awareness / with their products, women shall accentuate their individual beauty while remaining genuine / they offer exceptional quality at a reasonable price	Covergirl can look back on 40 successful years in Switzerland / they are innovators and always modern / the true character of the brand never ages / they benefit from their great image in the US and they get top-class celebrities for their commercials	women enjoy using make-up / their approach is to have attractive prices, yet the packaging has to be beautiful / they believe in classic design and quality / Catrice shall be a bit luxurious, but at the same time very modern / innovation is a must
RESOURCES AND CAPABILITIES What are the competitor's key strengths and weaknesses?	high brand awareness / parent company Dr. Scheller Cosmetics AG is highly profitable / seem to have a stable customer base --- high ad spendings and fixed costs do only allow to offer a small variety of shades / due to partnership with retailers, selling directly online is not possible / leading Swiss retailers are very influential concerning margin negotiations	backed by huge cash reserves of Procter & Gamble / excellent relationship with the leading Swiss supermarket chain (Migros) / the lipstick and lip gloss products are already being sold through Migros' online store / ranked among most trusted brands in Readers Digest Trusted Brands survey / can come up with true celebrities --- very high ad spendings enforce the colour variety to remain small / very high fixed costs / / leading Swiss retailers are very influential concerning margin negotiations	healthy financial situation (turnover of EUR 90m in 2009 / debt free) / powerful distribution partner (Coop supermarket) / monthly new special editions products / very professional POS appearance / experienced staff --- due to partnership with retailers, selling directly online is not possible / leading Swiss retailers are very influential concerning margin negotiations / company is in transition phase of becoming a globally active cosmetics player (65 employees in 2008 / currently 7 vacancies) / very low prices and rapid product replacements do not justify large variety of shades / high fixed costs

Figure 9: In-depth analysis of Manhattan Cosmetics, Covergirl, and Catrice. Source: own depiction with data from Manhattan Cosmetics, Covergirl, Cosnova, Dr. Scheller Cosmetics, and Euro Monitor International.

Sub-group 3: branded / very low cost

		
STRATEGY How is the firm competing?	very low-cost / very limited variety of shades / aiming at building brand equity / no advertising (instore only) / no celebrity endorsement / sporadically licensing of popular teen related content, for instance the 'Twilight Saga Eclipse Collection' / online: no offline: supermarkets, chemists, department stores	very low-cost / currently offer no lipsticks (only coloured lip balm in 8 shades) / lip gloss choice is large / build brand equity for the just launched brand / for the present, focus on Switzerland, Germany, and Austria / limited advertising (some online and magazine coverage) / no celebrity endorsement / online: no offline: supermarkets, department stores
OBJECTIVES What are the competitor's current goals? Is Performance meeting this goals?	maintain volume leader position in Switzerland and some other European countries / 'export' the brand to the US, Africa, Asia, and the Middle East / be very innovative / essence is exceeding their performance targets (26% profit growth in 2009) / outer European expansion is ongoing / very frequent product updates	establish the very young brand in Switzerland and the other German speaking countries / gain market share in the very low end of the market / clone the success story of essence / lure away customers from essence with the help of more variety and a strong parent brand / one has to await the results
ASSUMPTIONS What assumptions does the competitor hold about the industry and itself?	the brand essence is the essence of beauty / they offer a maximum of beauty at a minimal price / they believe their product quality is high / they regard their business model to be highly reproducible (the multi-country success seems to corroborate that)	MNY has been developed closely with trend experts from Maybelline Jade New York / there is a large enough group of customers who want hip, extremely modern, exciting, and gaudy colours / it is all about experimenting, reinvention, and trying new looks / MNY's collection is inspired by the city of New York's diversity / MNY enables young women to try a lot of colours that will not break the bank / a successful collection needs 100 colours and bimonthly updates / MNY will be the new 'it' brand
RESOURCES AND CAPABILITIES What are the competitor's key strengths and weaknesses?	the brand owner, cosnova GmbH, is financially healthy (see table concerning Catrice) / culture of unbureaucratic decision-making / very strong distributor network in Europe / ability to rapidly launch so called 'trend editions' / popular online community offered on website --- the 'high volume - frequent updates' strategy does only allow a very limited number of shades / the 'girly' branding and design makes essence only appealing to the very young ones (12-19) / due to retail partnerships, selling directly online is impossible / leading Swiss retailers are very powerful in margin negotiations / the lipstick quality impression is low as perceived by lipCat management (very dry formula, awkward scent, etc.)	very strong financial situation (parent brand is Maybelline Jade New York, belongs to L'Oréal Group) / ability to offer a product family with a total of 100 colours and rapid product replacements / MNY will certainly benefit from a positive image transfer from Maybelline Jade New York / there is already a good distribution network in Switzerland / interesting, helpful tools and styling guides on website --- currently, they do not offer lipsticks / the packaging is very 'girly' and hence only appeals to the youngest ones / due to retail partnerships, selling directly online is impossible / leading Swiss retailers are very powerful in margin negotiations

Figure 10: In-depth analysis of essence and MNY.

Source: own depiction with data from essence, Cosnova, and MNY.

Annotations to these three sub-groups are presented in Appendix 8.

Conclusion concerning competition

lipCat's main competitor is essence and MNY is also a direct competitor. The discounter brands and private labels are the second most important group of competitors; since decorative cosmetics is only secondary to them, it is easy for lipCat to outperform them in every single aspect. The third sub-segment, containing the two well-established brands Manhattan Cosmetics and Covergirl as well as the contender Catrice is much more difficult to 'attack'. The two former brands advertise heavily and come up with strong awareness while the latter is aiming at a different target segment (30 to 50 years) and simultaneously offers quite high-quality packaging. Catrice's lipsticks are approximately 46% more expensive than lipCat's as is intended currently. The extended competitor cluster (medium pricing) is probably out of reach for lipCat – at least in the beginning. Although the product quality can be regarded as comparable, the intangible values these strong brands possess should successfully block out lipCat. Only the price sensitive buyers might try lipCat's products.

There is something that all competitors (except the white labels) share: selling directly online is not possible, since their retailers would be cannibalised by that. Furthermore, compared to lipCat, all the competitors have (very) high fixed costs. lipCat's consistent 'on demand' outsourcing of manufacturing could provide it with the required edge to successfully enter the market from the very low-end in terms of pricing. It will be imperative to effectively communicate lipCat's advantages in the lower priced category: better quality, large selection of colours, lower price, more grown-up brand identity, and New York as the manufacturing origin.

2.6.6. lipCat's Vision, Mission and Values

This section explains the ideologies of the lipCat's proprietors regarding their vision, mission, values and a commitment towards the stakeholders.

Mantra

Kawasaki (2004) recommends having a short, succinct 'mantra' that is highly memorable and reminds everyone within the organisation of its purpose; a mantra is for internal use only and should not be confused with tag lines (p.6-8).

lipCat's Mantra reads as follows:

„Eliminate cosmetics trade-offs“.

lipCat ends the current situation in the Swiss cosmetics market, where low price, high quality, and large variety are mutually exclusive.

Mission

Lipton (1996) states that a firm's mission comprises the fundamental question of why it exists. It must engage all relevant stakeholder groups. He points out that in order to develop a useful mission statement, the applicable market and target customers should be defined, the products' or services' benefits should be expressed, and it has to be distinct and unique from competitors' statements (p.87). Below is lipCat's mission statement, developed to these specifications:

“lipCat provides young women with affordable, high-quality products, which enhance their self-confidence, accentuate their individual beauty, and – thanks to the large variety of colours – allow them to express their unique self-conception. Our ability to conciliate the interrelation of price, quality, and variety is unmatched. We free young women from having to accept compromises concerning decorative cosmetics.”

Vision

A formal vision acts as the basis for a strategic plan; in addition, it ensures that decision making will be kept in context. What this means is embodied in a quote by Michael Dell that Lipton recites: “It's easy to say what you're going to do. The hard thing is figuring out what you're *not* going to do”. The vision must be related to a preferred future state; while goals and objectives do alter from year to year, this is not true for vision. This commitment, written in the present tense, functions as a 'guardrail' in periods of uncertainty and change. It is important to find the right balance between idealism and realism – a vision should be achievable, at least in some respects (Lipton, 1996, pp.85-91).

“lipCat is a well-known, trusted, and preferred brand among young Swiss women, who enjoy experimenting with their look and expect exceptional value-for-money. Our customers highly appreciate our unique, unconventional identity, the opportunity to become truly involved with the brand, and their suggestions and needs being truly incorporated into all our actions.”

Stakeholder Understanding

“Our customers and supporters of the brand take top priority; it is their trust and merit that render lipCat’s existence and further growth possible. Sufficient profits are necessary to constantly satisfy our customers’ needs and exceed their expectations. lipCat’s founders and associates are glad creating significant value for our customers. We are reliable and exemplary in our interaction with business partners and authorities. Not least by minimising all our products’ packaging, we are committed to protect the environment and serve our community.”

Our values

<i>Quality:</i>	Though excellent value-for-money is important, we will never accept compromise regarding product quality and customer service.
<i>Respect & Tolerance:</i>	We embrace human diversity; as our manifold shades, it enriches life.
<i>Efficiency:</i>	Primarily, we save our customers money. By staying lean, flexible, and agile, we can hand on efficiency gains to our customer base and therefore create value.
<i>Trustfulness:</i>	At lipCat, we have a long-term horizon. We do not just ship products to our customers – we strive to make them enthusiastic followers of our brand, whose suggestions and needs are being incorporated into our daily operations.

Competitive Strategy

This section deals with the crucial aspect of how lipCat should conduct its business activities in a highly competitive market in order to emerge ahead of its competitors.

2.7.1. The Three Generic Strategies

Porter (1985) distinguishes three main types of competitive strategies: cost leadership, differentiation, and focus. The cost leader is able to undercut competitors’ prices while exhibiting an above-average price to cost margin. By effectively differentiating products from competitors’, a price higher than the costs of differentiating can be charged. When a company goes for a focus strategy, it

concentrates its activities on a particular market segment and applies one of the earlier mentioned strategies (Dobson et al, 2004, p.53).

As presented earlier, lipCat will pursue a focus strategy; only women aged between 15 and 29 will be targeted. The very limited resources have to be concentrated and the products have to be tailored to the needs and characteristics of this group. Thus, the remaining question is whether to combine the focus strategy with the concept of cost leadership or with one of differentiation. Even if one decides to follow the cost leadership strategy, there are always some further elements of differentiation; the most obvious being the company logo and brand name. Indeed, Mintzberg et al (2003) corrected Porter by stating that “the most basic way to differentiate a product (or service) is simply to charge a lower price for it” (p.121). Porter’s framework is still very useful – although, in practice, it is never that ‘black or white’. Basically, Porter wants companies to decide whether price is the primary criterion of competition or a secondary.

So, which is more promising for lipCat? Probably every marketer or manager would prefer the differentiation strategy; the fear of a price war is low and customers are willing to pay a brand premium. In a very competitive industry like the Swiss market for decorative cosmetics, it is not that simple to successfully pursue a pure differentiation strategy. The incumbent players already have high brand awareness, a clear profile, access to retail distribution, and significant advertising budgets. Due to the very tiny organisation structure, lipCat cannot win an exchange of blows concerning differentiation – at least not in the beginning. Let us recall the narration of David versus Goliath. Usually, the small start-up cannot offer lower prices than the established firms. The brand ‘Essence’ is a Goliath compared to lipCat. They benefit from large economies of scale and their manufacturing process is highly automated; the opposite is true for lipCat.



Figure 11: David Slings the Stone, painting by James Tissot. Source: Getty Images.

Yet, lipCat can successfully pursue the *overall* cost leadership strategy. While lipCat is inferior in terms of variable costs, it is superior in fixed costs. In short, lipCat will be able to undercut Essence's prices and still make the intended profit. Because it is a kind of family, alongside business, it is not crucial to us to make a profit every month. lipCat will not have to share their margin with distributors. If necessary, lipCat can lower their prices to a point where Essence's business model would be unsustainable. And even then, as a last resort, lipCat could easily change their business model to a subscription based one (access to the online store for a small yearly fee). Based on the reasons explained, lipCat will pursue a cost-focus strategy.

2.7.2. The Strategy Diamond

A very useful framework that helps to design strategy is Hambrick and Fredrickson's (2001) 'Strategy Diamond'. In this model, strategy is being divided into five elements. *Arenas* specify where and with how much emphasis the firm will be active. The growth approach is termed *vehicles*. All activities and characteristics that help the business to develop a unique, meaningful competitive profile are called *differentiators*. *Staging* refers to the speed and sequence of the firm's market actions. Finally, *economic logic* names the reason why the business will be making sufficient profit. (Hambrick & Fredrickson, 2001, p.51)

Figure 12 displays lipCat's strategy diamond.

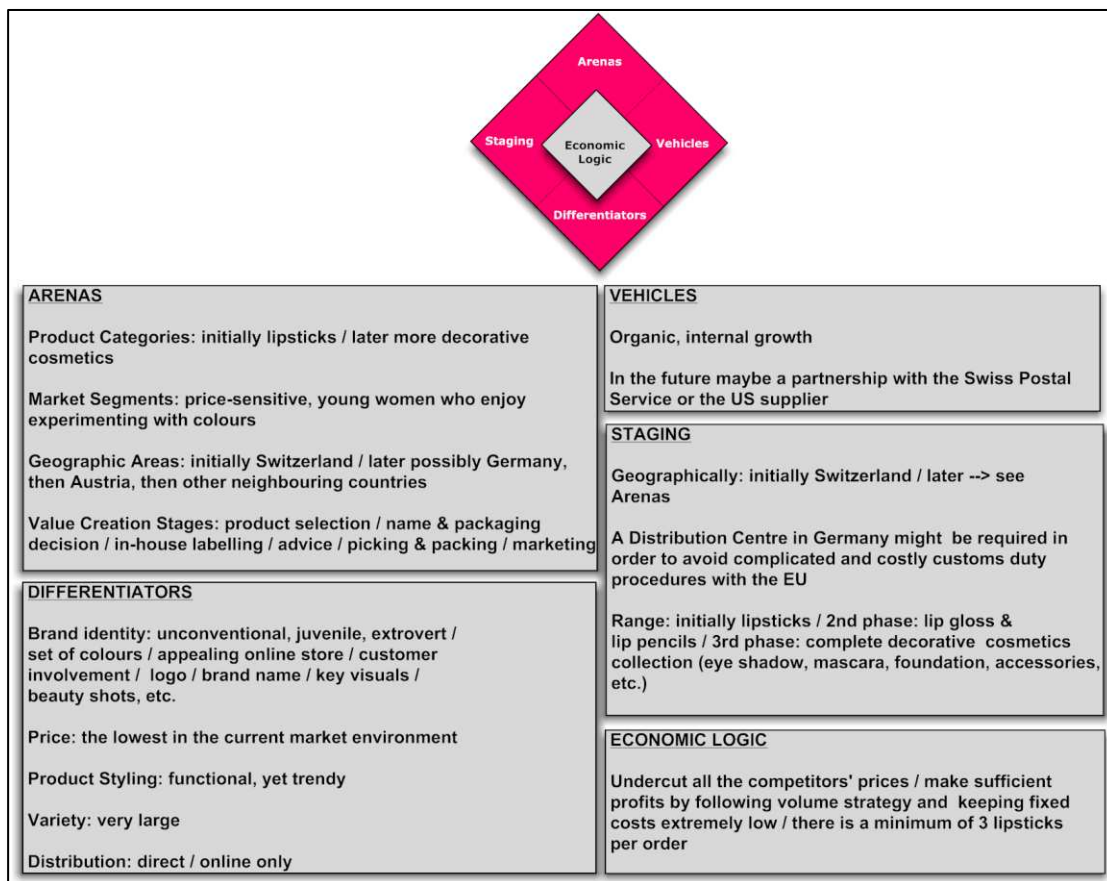


Figure 12: lipCat's strategy diamond. Source: own depiction based on Hambrick & Fredrickson (2001) p. 51.

The above strategy diamond helps to ensure that lipCat's strategy will be consistent and coherent.

2.7.3. The Activity System Map

Porter (1996) holds that “the essence of strategy is choosing to perform activities differently than rivals do” (p.64). He recommends Activity-System Maps as a useful tool to visualise a firm’s strategic position. Furthermore, he points out that trade-offs are essential in order to achieve a distinct strategic position and a sustainable competitive advantage; they help the management to set clear priorities and they define the way the firm competes (pp.68-69). Figure 13 shows lipCat’s Activity-System map.

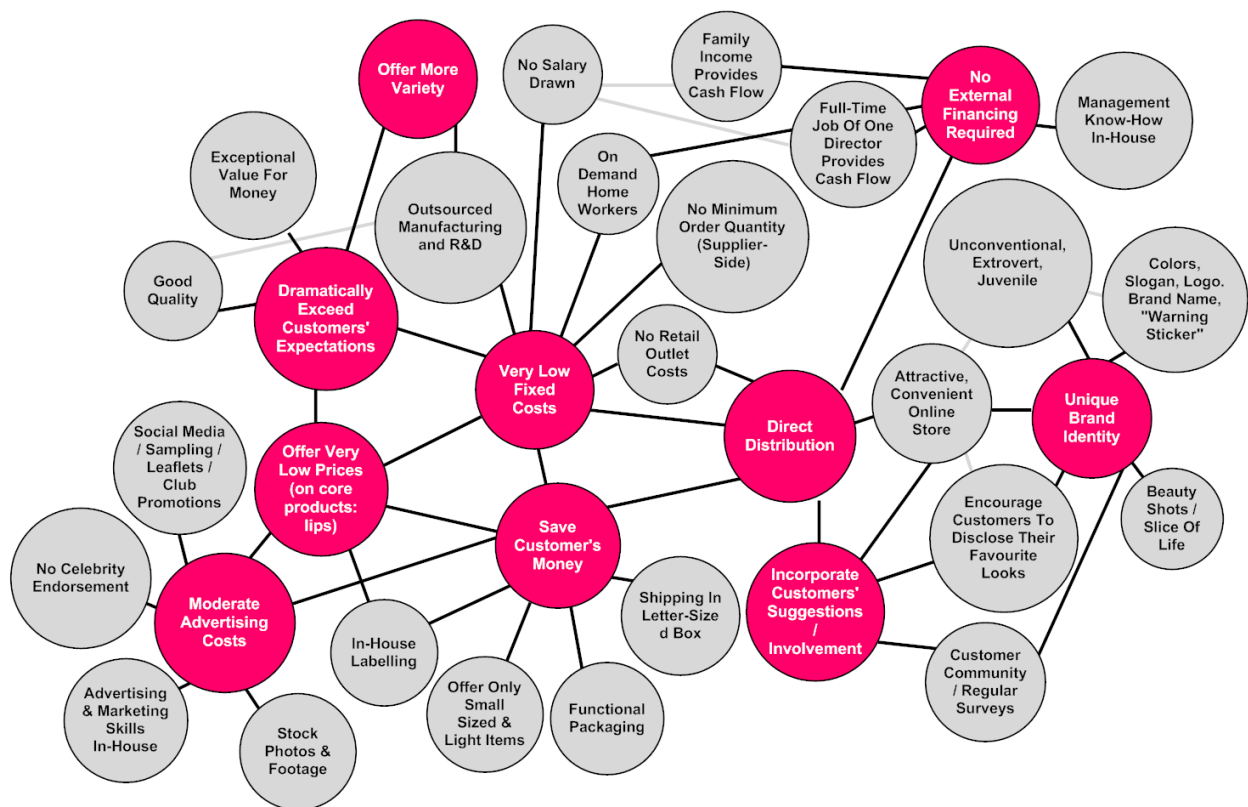


Figure 13: Activity-System Map of lipCat. Source: own depiction based on Porter (1996).

The bundle of distinct activities should give lipCat a unique strategic position in the Swiss decorative cosmetics market and lead to a certain degree of competitive advantage in the low-end segment. The higher order strategic themes (here pink) can be identified and implemented through clusters of activities (here grey) which are tightly linked to them (Porter, 1996, p.71).

2.7.4. Strategic Options

With the help of the brain storming technique, the authors have tried to collect as many as possible different ‘building blocks’ that collectively shape the strategy. These are presented in Appendix 9.

Corporate Objectives

This section presents lipCat’s corporate objectives.

Level of Profitability

Table 1: lipCat’s profitability objectives.

	Year 1	Year 2	Year 3	Year 4	Year 5
	intended profit after tax				
Switzerland	CHF 12,000	CHF 36,000	CHF 60,000	CHF 100,000	CHF 180,000
5 EU member countries (Austria, Germany, Portugal, France, Italy)			CHF 50,000 <i>(collectively)</i>	CHF 100,000 <i>(collectively)</i>	CHF 150,000 <i>(collectively)</i>
Total intended profit after tax	CHF 12,000	CHF 36,000	CHF 110,000	CHF 200,000	CHF 330,000

The profit contribution from the five EU member countries could originate from a franchise model, a licensing model, through exporting from Switzerland or by establishing an own distribution centre in Germany. This geographic expansion is, of course, subject to a success in the Swiss market.

Supply Side Objective

lipCat wants to build a good relationship with the major suppliers.

Customer oriented Objective

lipCat wants to meet the needs of its customers by actively seeking their feedback and incorporating their suggestions.

CHAPTER THREE: MARKETING STRATEGY

Kotler & Armstrong (2010) state that Marketing's aim is to "create value *for* customers and to capture value *from* customers in return" (p. 26). According to Drucker (2007), a firm's purpose is to create a customer; therefore it only has two basic functions: marketing and innovation. In essence, this chapter will highlight which customers lipCat should serve, how value can be created for them, corresponding to their needs, and how lipCat can extract value from this relationship. In great detail, all necessary intermediate steps to achieve this objective will be presented.

3.1. Entrepreneurial Marketing

In a research built on depth interviews, critical incident technique, and focus groups, Stokes (2000) made some very interesting findings on how successful entrepreneurs understand marketing and conduct the same. Entrepreneurial Marketing refers to marketing that is adapted by entrepreneurs in order to better suit small and medium-sized businesses. In general, it is the individual marketing competency of the business owner or founder that strongly influences the approach to marketing within the venture. In particular, experience, communication abilities, knowledge, and judgement capabilities of the owner-manager affect marketing effectiveness (Carson et al, 1995, pp.12-13).

This is where the initiator of lipCat sees a strength of the business: due to a qualification from the Bavarian Academy of Advertising & Marketing (Munich, Germany), lipCat will be able to plan, develop, and implement professional advertising and marketing activities very cost-efficiently. Whereas the marketing literature advocates that an assessment of market needs precedes product development, the opposite seems to be true for most entrepreneurs; very often they develop an idea and later they seek for promising markets. lipCat's business model began to take shape when the initiator was actively looking for private label opportunities of all sorts; first the US supplier and its advantageous offerings had been discovered, then Switzerland as a potential market was considered.

Concerning the next steps in lipCat's development, the authors are aware of the importance of following the pre specified rules in academic knowledge. The classic 'top-down' approach to marketing (segmentation, targeting, and positioning) is frequently being replaced by a 'bottom-up' one, where entrepreneurs begin satisfying the needs of a few clients, then trying to find more with the same needs. Furthermore, entrepreneurs tend to neglect the rather standardised marketing mix

(the '4 Ps'), rather they prefer to substantially rely on direct customer relationships. Indeed, this study confirmed that for small businesses, word-of-mouth is the number one source of new customers. Most entrepreneurs have some procedures of monitoring the marketplace; the majority of them rely on personal observation (e.g. collecting competitors' price lists) and their network of contacts. However, in most cases, a formal research process was lacking. (Stokes, 2000, pp.47-53)

Figure 14 summarises the findings on Entrepreneurial Marketing.

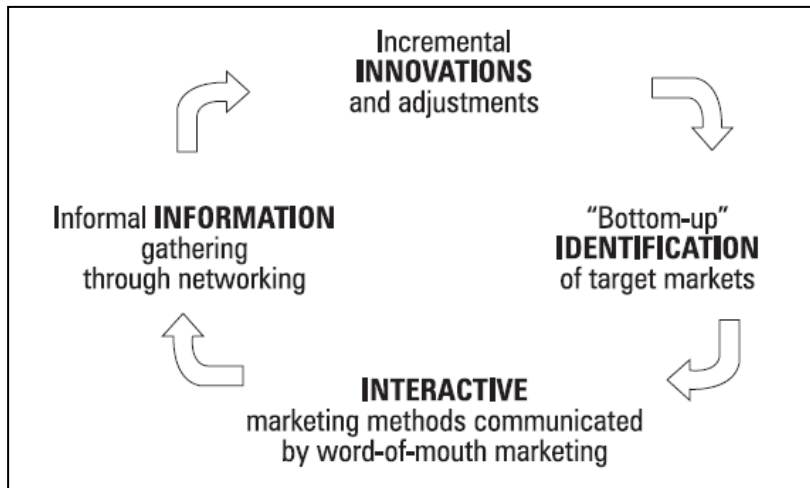


Figure 14: Entrepreneurial Marketing Process. Source: Stokes (2000), p.52.

Start-ups that do not stick to the conventional marketing management process can be successful. However, lipCat does not intend to perform such an improvised behaviour, instead, the state-of-the-art business knowledge taught at contemporary business schools shall define the firm's activities. Hence, the useful and cost-efficient concept of word-of-mouth marketing must be accompanied with more proactive techniques and a proper market intelligence process should be developed.

An introduction to the concepts Bootstrap Marketing and Guerrilla Marketing can be found in Appendix 10.

3.2. Market Segmentation

Kapferer (2008) holds “nowadays we no longer talk about segments, but rather fragments” (p.146). Furthermore, he believes that the so called *mass market* is no more existent. Although the authors agree with this opinion, the term ‘segmentation’ shall subsequently still be used, since it is a widely understood familiar term. An elaborate introduction to market segmentation is presented in Appendix 11.

The following segmentation (based on demographics, attitudes, behaviour, and price) shall provide a profound basis for lipCat Ltd’s later market entrance strategy.

Based on a cosmetics typology developed by Burda Community Network and Roland Berger Strategy Consultants, five different consumer segments can be distinguished as shown in Figure 15. This paradigm has been devised in the context of market research targeted at women resident in Germany. Due to the absence of a similar or superior typology in Switzerland and the high degree of similarity in many societal aspects, this model shall be applied to the Swiss cosmetics market as well.

	Prestige Orientated Luxury Shoppers	Price-Conscious Minimalists	Flexible Beauty Novices	Trend-Setters Open To Experiments	Nature-Conscious Purists
Typical Age	50+	50+	14-29	14-29	30-49
Share of the Population (approx.)	17%	23%	22%	16%	22%

Figure 15: A cosmetics typology.

Source: Burda Community Network, 2006 & Roland Berger Strategy Consultants, 2008.

A description of these five consumer segments in great detail can be found in Appendix 12.

Figure 16 on the next page illustrates the attitudes of the segments towards function and impression of cosmetics.

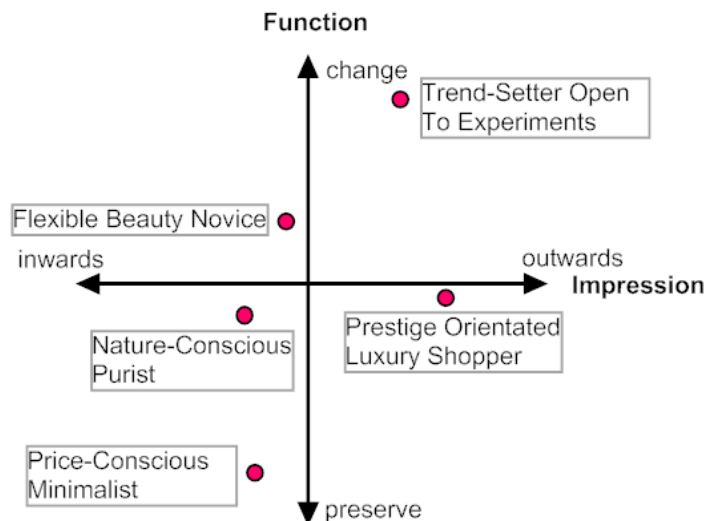


Figure 16: Positioning of the cosmetics buyer segments.
Source: Burda Community Network, 2006, p.12.

The *Prestige Orientated Luxury Shopper* is the most extrovert type; they wish to attract attention and simultaneously maintain the balance between change and preservation.

The *Price-Conscious Minimalists* do not watch out for extroversion and make use of only the essential cosmetics in order to preserve the physical health of their skin.

In the centre there is the *Flexible Beauty Novice*; neither are they much orientated outwards nor inwards. They wish to alter their appearance only moderately.

The *Trend-Setters Open To Experiments* try out novelties. They use cosmetics primarily to alter their look, to enhance their impression on others, and to cause feedback.

For her individual wellbeing the *Nature-Conscious Purist* balances change and preservation.
(Burda Community Network, 2006, pp.12-13)

In addition to the above segment description, the characteristics of the female 'under-thirties' can be found in Appendix 13.

3.3. Evaluation of the Segments and Targeting Decision

As the cosmetics buyers typology has shown, there are only two suitable promising consumer segments – both the *Flexible Beauty Novice* and the *Trend-Setter Open To Experiments* are young groups (typically aged 14 to 29). The other segments drop out, either because the demographics would not fit with the rather youthful brand concept of lipCat Ltd. or because they demand something that lipCat Ltd. at this stage cannot provide; such as frequent, true innovations, a premium brand awareness, all natural ingredients, high-tech cosmetics or (own) stores in premium locations.

The *Flexible Beauty Novice* is a very promising segment for lipCat; value-for-money is the most important factor to them. They are rather juvenescent, spontaneous, and like to experiment with decorative cosmetics. The *Trend-Setter Open To Experiments* is also relatively young, unconventional, and especially extrovert. Furthermore, they strive for variety.

Both clusters are not so much obsessed with product quality, like to set the trend, gladly try out new decorative cosmetics, and are open to respectively inspired by advertisement. Hence, these two segments complement one another respectively overlap to a certain degree.

lipCat will target these two appealing and lucrative consumer segments.

3.4. Target Group Description

The following figure summarises lipCat's targeting approach in Switzerland and gives further information on the media accessibility as well as the communication requirements of the clusters.

	Target Segment 1	Target Segment 2
	Flexible Beauty Novice	Trend-Setter open to Experiments
Distinctive Characteristics	<ul style="list-style-type: none"> ■ especially keen to try out new products ■ would by in discount stores ■ not so active in giving shopping advice ■ perceives quality of non branded items is as good as that of branded ones ■ does not treat herself often with expensive goods 	<ul style="list-style-type: none"> ■ a bit more demanding ■ not keen to buy from discount stores ■ loves giving shopping advice to friends ■ perceives branded items are a bit better than non branded ones ■ enjoys treating herself with rather expensive products, too
Sub-Segments	Teenagers	College Students / Twens
Age	15-19	20-30 / 20-29
Separate Advertising Message	X	X
Media Accessibility (ranked by preference)	1. Online 2. Cinema 3. Radio 4. TV 5. Music & Youth Magazines / Life Style Magazines 6. Daily Papers	1. Cinema 2. Online 3. Daily Paper 4. Music & Youth Magazines / Life Style Magazines 5. Radio 6. TV
Communication Requirements	Reacts to unusual, eye-catching adverts, which convey the brand image respectively brand personality.	Before purchasing, they need information on ingredients and effect of the product. They are open to innovative forms of advertising.
Approx. Size of Segments	Minimum: 265,924 (22% Flexible Beauty Novice in Population ; 16% Trend-Setter open to Experiments in Population) Maximum: 699,800	

Figure 17: Description of the target group.

Source: own depiction with information from Burda Community Network and GfK.

Due to the different preferences, requirements, and life situation, there will have to be two different advertising messages; one for Teenagers and one for college students and Twens.

3.5. lipCat's Brand Personality and Brand Essence

A brand fulfils several functions: it reduces the customer's perceived risk when buying a product (Kapferer, 2008), differentiates from the competition, facilitates the sale of successive products, and signals a certain quality level (Bates USA, 2003). An elaborate explanation of brand identity and the tool 'Brand Wheel' can be found in Appendix 14.

Figure 18 shows lipCat's Brand Wheel.

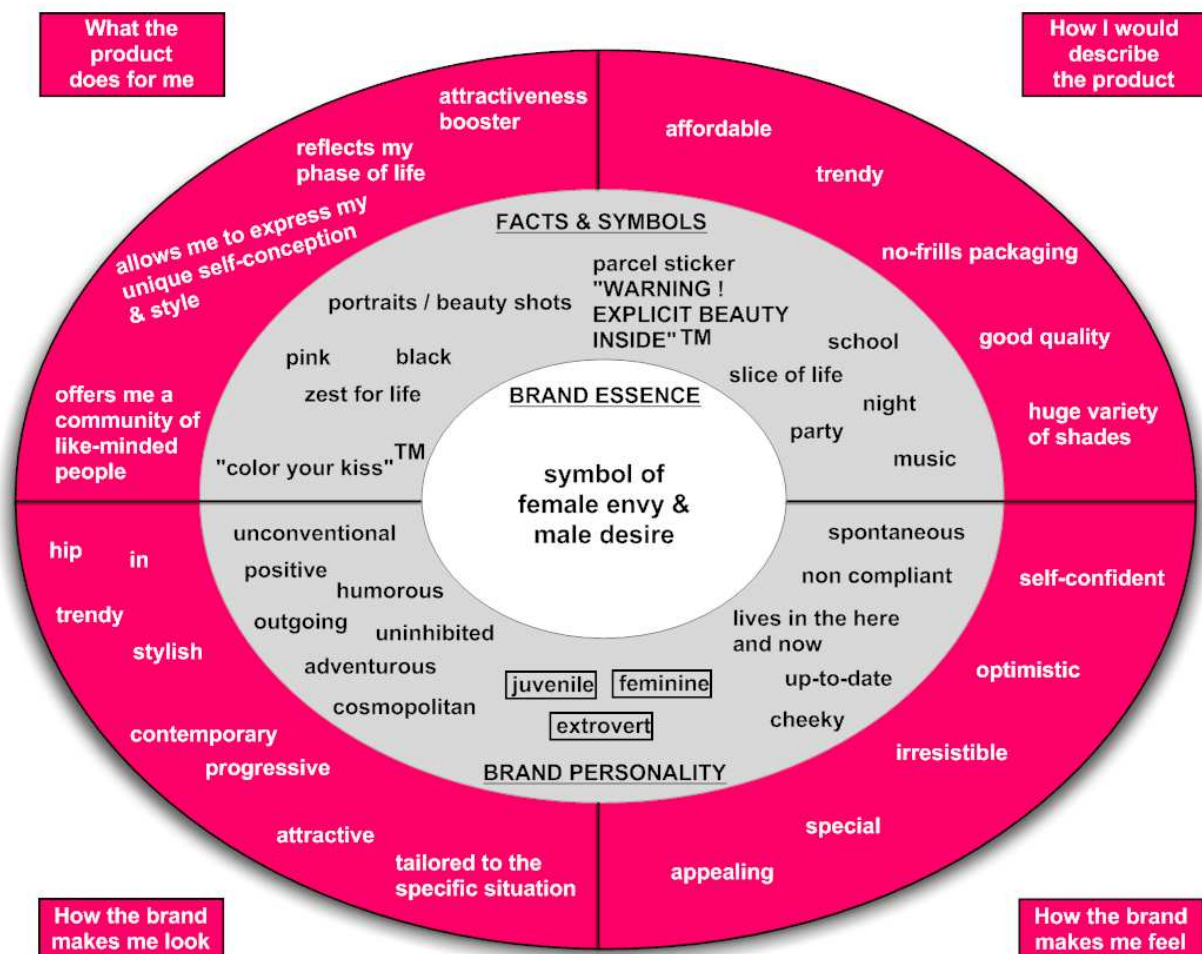


Figure 18: lipCat's Brand Wheel. Source: Own depiction adapted from Bates USA.

Based on the findings of the competitor analysis, customer segmentation, and the conducted market research, lipCat's brand personality will be juvenile, female, and extrovert. lipCat's brand essence could be described as 'a female version of Lynx' – users of lipCat products shall be envied by women and desired by men. Accordingly, all constituent attributes of the brand have to support the promise that lipCat makes women more attractive and irresistible. Light heartedness and humour will be characteristic for lipCat's adverts.

This seems to be a promising brand identity for lipCat. Identities such as ‘diva’ or ‘hollywood star’ are only possible credibly for very big companies. ‘Natural and Fair Trade’ is already occupied by The Body Shop. Essence’s brand identity is a young girl. lipCat can position itself as the brand for teenagers and young women who want to attract attention with their appearance, like to experiment with cosmetics, and who are unconventional and adventurous.

Over the life cycle of the brand, it is necessary to constantly remind existing and potential customers of what is different about the company’s products. If this is done successfully, the brand will become more valuable – with regard to a potential trade sale or strategic alliances in the future, this is of great importance to lipCat.

3.6. lipCat’s USP and UCP

The concept of Unique Selling Proposition (USP) goes back to Rosser Reeves from the advertising agency Ted Bates. Basically it summarises why the customer should buy a product or service. Reeves mentioned three crucial prerequisites of an effective USP: a specific product benefit must be involved, it must be unique (i.e. not currently used by competitors), and it must sell – it must be of importance to the customers so that it influences their buying decision. He highlighted the importance of persistently communicating the same USP; repetition eventually leads to habit formation. (Koekemoer & Bird, 2004)

Kapferer (2008) observed that nowadays truly unique product differences are very rare; therefore, a Unique Selling *Personality* (brand character) might be the goal of today’s marketers. Fuchs & Unger (2007) assent Kapferer and refer to the terms Unique Advertising Proposition (UAP) and Unique Communication Proposition (UCP) – here, the goal is to create an emotional uniqueness of the brand in the minds of the customers.

For a very small business like lipCat both a Unique Selling Proposition and a Unique Communication Proposition is difficult to achieve respectively anchor in the minds of the target group. Nevertheless, these two statements will read as follows.

lipCat’s Unique Selling Proposition

“Beauty enhancing products – huge variety, excellent value for money”

lipCat's Unique Communication Proposition

“lipCat beauty products are the must-have for today’s trendsetting young women – feel attractive, special and irresistible with lipCat”

3.7. lipCat's Positioning Statement

Kapferer provides a framework for the development of a positioning statement in Figure 19.

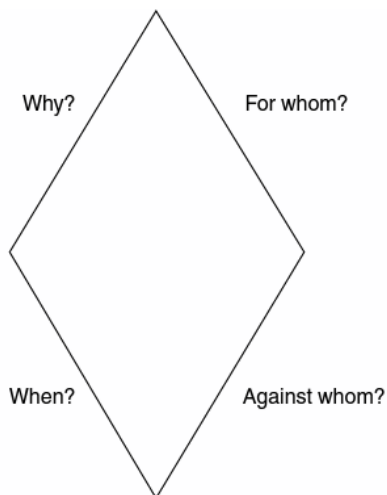


Figure 19: Positioning Framework. Source: Kapferer (2008) p. 176.

Four questions help to create a compelling positioning statement. For whom is the brand? Against whom will the brand compete? For what benefit is the brand? Why should the potential customer buy the product or service? Positioning can be understood as a two-stage process: In the first step, the most important competitors have to be indicated. In the second step, one has to specify what the brand’s essential difference is compared to those competitors and their offerings. (Kapferer, 2008)

As has been explained earlier, *essence* and *MNY* are the main competitors of lipCat. It is important to note that the positioning statement is for internal purposes only – typically, together with the copy strategy external advertising agencies then create advertising messages and campaigns.

lipCat's positioning statement

“lipCat offers high quality decorative cosmetics in a very large colour variety. This combination of quality and choice is unmatched in the very-low-price sub-segment. Teenagers and young women prefer lipCat, because the products make them feel more attractive, special, and irresistible – hence,

enhancing their self-confidence. The huge variety of shades allows every woman to express her very own self-conception and to experiment with new looks. lipCat's brand personality is unconventional, extrovert, lives in the here and now and its communication is often a bit cheeky and humorous – yet always respecting and celebrating femininity. lipCat's customers can identify with the brand while enjoying their most exciting phase of their lives.”

3.7.1. Copy Strategy

lipCat's Copy Strategy is presented in Appendix 15.

3.8. Marketing Objectives

Economic

- Number of Orders

Table 2: Intended number of monthly orders. Source: own depiction.

	Year 1	Year 2	Year 3	Year 4	Year 5
	<u>monthly</u> required orders				
Switzerland	667	2,000	2,500	4,166	7,500
5 EU member countries (Austria, Germany, Portugal, France, Italy)			416 (per country)	833 (per country)	1,250 (per country)

The basis for this calculation is the intended profit after tax from the Corporate Objective section. For the first two years, the profit after tax per order is assumed to be CHF 1.50 (50% of the gross yield of CHF 3.00 per order will be spent on advertising, fixed costs, and taxes). From year three onwards, this

profit after tax per order should rise to CHF 2.00 – due to an introduction of products with a higher margin. lipCat's sales volume will be too small to express it as a market share figure in per cent.

- Geographical Expansion

From the beginning of the third year, lipCat will be actively marketing its products in member countries of the EU.

- Product Mix Depth and Breadth

In the beginning of the second year, at the latest, the lip products range has to be extended with mascara, eye shadows, rouge, foundations, and accessories. From the third year onwards, products such as fragrances or branded t-shirts have to be introduced.

- Product Innovations

Every half-year, at least one new product has to be introduced in each product category on offer.

Psychologic

- At least 20% of Swiss women aged between 15 and 29 know the brand lipCat (unaided awareness).
- At least 40% of those women who know lipCat do like the brand.
- At least 90% of those women who have tried lipCat products are satisfied or very satisfied with the product quality, the service quality, and the value-for-money.

3.9. lipCat's Marketing Mix

In this part lipCat's Marketing Mix activities will be presented.

3.9.1. Product

Quality:

Every decorative cosmetics item will be purchased from the US supplier.

Packaging:

The packaging is always secondary, however, within the target costing limitations, it has to be ensured that each packaging is functional, convenient, and trendy.

Product Design / Innovation:

lipCat has currently no influence on the actual product design. The US supplier is responsible for new product development.

Branding:

lipCat follows an umbrella branding strategy; hence, all introduced products, regardless of the product category, will have the lipCat logo.

Services:

lipCat will provide guidance on which products to be used by which skin type. Most likely, for this service an external specialist such as a make-up artist will be hired by the hour.

Guarantees:

Due to the relatively small margin (in absolute terms) of the decorative cosmetics items, a money-back-guarantee cannot be offered, although lipCat believes in the product quality. The risk that the young consumers abuse this warranty seems to be too high.

Range of Products:

lipCat will start with lipsticks, lip balm, lip gloss, and lip pencils. Over time, new categories will be introduced (eye products, skin products, accessories, fragrances, t-shirts, etc.)

3.9.2. Price

Price Relationship:

There will always be the original lipstick collection offered at CHF 3.50 (respectively CHF 2.90 from the fourth stick in one order). Later, a more expensive lipstick series with a bit more sophisticated packaging is conceivable – no lipstick product must exceed the price point of CHF 7.00. Lip gloss will cost between CHF 5.50 to CHF 9.00. Mascara will cost around CHF 8.00. The pricing of other decorative cosmetics items has to be geared to this lower price level.

Discounts:

Since the (absolute) margin is already relatively low, only quantity discounts can be offered occasionally.

Allowance:

Since lipCat accepts only instantaneous electronic payment, there will be no need for allowance due to early payment.

Special Prices:

Special prices are imaginable for product bundles or for new product introduction (in the sense of a penetration price).

3.9.3. Place

Distribution Channels:

In the beginning, lipCat will be available only through the internet. In case that demand via this channel will be insufficient, suitable dealers have to be identified and persuaded to stock lipCat products. Of course, the product mix depth and breadth as well as the pricing would have to be adapted to the brick-and-mortar retail environment.

Warehousing:

lipCat will stock all the products on offer in an office in the family house.

Delivery of goods:

All ordered goods will be delivered with the help of the Swiss Postal Service.

3.9.4. Promotion**Online Advertising:**

One of lipCat's main advertising channels will be online advertising on social networks such as Facebook and electronic news sites such as '20 Minutes' in Switzerland. Moreover, advertising or commenting in blogs or on specialised beauty websites will be performed.

Leaflet Campaigns:

The most important way for lipCat to advertise its products are leaflet campaigns near railway stations, in city centres, near schools or universities, and in or outside of night clubs. In most cases, an approbation has to be obtained which incurs a fee.

Word-Of-Mouth:

lipCat will provide incentives and free printed matter to existing customers for recommending lipCat's products to friends and colleagues. Especially in the beginning, it is crucial to push word-of-mouth. One measure could be that a woman gets several free beauty products in exchange for recommending the lipCat online store to all her female friends on Facebook. Of course, this has to be done selectively, due to the involved costs.

Sampling:

Since decorative cosmetics are a typical experience good, customers cannot be sure of the products' quality and characteristics prior to the purchase. lipCat believes that sampling will be a very powerful way to convince members of the target group of the excellent value-for-money. Even though sampling is one of the most expensive marketing tools, lipCat definitely needs it in order to quickly build a loyal, enthusiastic core customer base.

Sponsoring:

Of course, lipCat cannot afford to sponsor big events. However, once a year lipCat could partially sponsor respectively fund students' parties or events in exchange for an advert in the event brochure or a billboard at the event. The emphasis here should be placed on very unusual or surprising events

so that lipCat's sponsoring activity could potentially be recognised by a newspaper or journalist. A very large minority in Switzerland are the Portuguese. For instance, once a year lipCat could organise the event 'the Portuguese night' in co-operation with a popular night club.

Guerrilla Marketing:

The risks and benefits of Guerilla Marketing have been discussed in Appendix 9. In the light of very limited financial resources, lipCat will probably have to make use of this powerful 'weapon'. For instance, in night clubs, the founder or friends of the brand could 'smuggle' creative, high-quality leaflets into the restrooms of night clubs and place them eye-catchingly on mirrors. Or, some sample lipstick products could be handed over to young women in these locations.

Print Media:

There is a multitude of interesting magazines in Switzerland which could potentially reach the target group. Usually advertising here is very expensive. The by far most widely read newspaper and lifestyle magazine in Switzerland is '20 minutes'. Since literally all students and young people read it (it is free), lipCat must try to advertise here, at least sporadically. This medium is excellent for quick awareness building.

Vending Machine Advertising:

From a previous start-up idea, the founders possess five professional hair-straightening vending machines manufactured in Scotland. lipCat will try to persuade night club owners to install such a machine in their club's ladies restroom. There will not be any monthly payment. Instead, the night club owner will get all the coins inserted into the machine and lipCat will be allowed to install a large poster right next to the machine. The founders have also built a fully functional own prototype of a hair-straightening machine that offers free hair styling. There is an electronic screen that displays commercials including sound. lipCat hopes that it can install this machine at the airport. lipCat could have 10 seconds out of the 60 seconds commercial slot – the rest could be sold by the airport operators to other advertising clients.

Radio:

lipCat thinks that this advertising channel is only suited on special occasions such as Valentines Day. In the beginning, lipCat will not focus on this medium.

TV and Cinema:

These two media are, of course, the dream of every marketer. In the beginning, neither of them is affordable for lipCat. In a later stage, sporadic commercials on the Swiss channel of MTV or in local cinemas might be considered.

Outdoor advertising:

Official billboard advertising space is very expensive as long as the site is highly frequented. This is not an option for lipCat in the beginning. Theoretically, guerrilla marketing campaigns could be done here, but the risk of being fined is extremely high and, therefore not practical.

Public Relations:

It is not very realistic, however, lipCat will try to provide journalists and editorial offices in the field of beauty with product samples and press kits about the brand. Maybe an online or offline article will then present lipCat's products to a wider public in Switzerland.

Bootstrap Marketing Activities:

lipCat will try to establish strategic alliances with other smaller players, where mutual benefits have an effect. For example, an independent fashion store could stock the lipCat collection; in return, lipCat includes a leaflet of this company in every shipping carton. Or, by choosing the Swiss Postal Service as the exclusive electronic payment provider, maybe they could install an advertising display of lipCat in their branches for a limited period.

3.9.5. Communications Objectives

Information

- At least 80% of those who know the brand lipCat do know that the products are being manufactured in New York.
- At least 80% of those who know the brand lipCat do know that lipCat offers at least 75 lipstick colours.
- At least 80% of those who know the brand lipCat do know that a lipCat lipstick is available from CHF 3.50.

Persuasion

At least 80% of those who know the brand lipCat do like its advertisements.

3.9.6. Marketing Budget

There will be a monthly marketing and advertising budget of approximately CHF 2,000. The following section shows the allocation of these resources in detail.

3.9.7. Marketing Roadmap

Table 4 shows lipCat's Marketing Roadmap for the first year. An elaborate explanation is presented in Appendix 16.

Table 3: lipCat's Marketing Roadmap. Source: own depiction.

	J	F	M	A	M	J	J	A	S	O	N	D
Leaflet Campaigns City Centres	1 189.-		1 189.-		1 189.-		1 189.-		1 189.-		1 189.-	1 189.-
Leaflet Campaigns Letterboxes	4 20.-	4 20.-	4 20.-	4 20.-	4 20.-		4 20.-		4 20.-	4 20.-	4 20.-	4 20.-
Sampling Activities	1 210.-	1 210.-	1 210.-	1 210.-	1 210.-				1 210.-	1 210.-	1 210.-	1 831.-
Hair-Straightening Vending Machine Ads	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-
Online Adverts (Facebook) & Blogs	X 300.-	X 300.-	X 300.-	X 300.-	X 300.-		X 300.-	X 300.-	X 300.-	X 300.-	X 300.-	X 300.-
Online Adverts '20 Minutes online'	1 350.-	1 350.-	1 350.-	1 350.-	1 350.-		1 350.-	1 350.-	1 350.-	1 350.-	1 350.-	1 350.-
Guerrilla Activities in Night Clubs (leaflets, business cards)	1 0.-	1 0.-	1 0.-	1 0.-	1 0.-		1 0.-	1 0.-	1 0.-	1 0.-	1 0.-	1 0.-
Press Kits / PR	3 60.-	3 60.-	3 60.-	3 60.-								
'20 Minutes' print ad (CHF)			1 2115					1 2115				3 3346
Word-Of-Mouth printed matter	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-	X 0.-
Sponsoring (CHF)						1 5000						
Radio												
TV & Cinema												
Outdoor Ads												
Total monthly costs (CHF):	1129	940	3244	940	1069	5000	859	2765	1069	880	1069	5036
SUM	CHF 24,000											

CHAPTER FOUR: OPERATIONS STRATEGY

Brown et al (2001) state that the organisation cannot excel without excellent operations. A firm that wants to be successful has to deliver on its promises. Skilful operations management significantly contributes to organisational success or failure. Operations link the activities of the business with its customers' needs and desires. Operations are prevalent throughout the entire organisation, and operations management typically focuses on processes. (Brown et al, 2001)

Greasley (2007) highlights that process mapping is useful to document and design efficient business processes; these flowcharts lead to a better understanding of the specific business process and reveal interrelationships between the various activities.

The manufacturing of the decorative cosmetics will be performed by the US supplier, whereas lipCat will indulge in final labelling and selling of the products.

In the following, lipCat's supply chain and outsourced order fulfilment will be visualised. Moreover, lipCat's purchase order process, in-house order fulfilment process, and in-house labelling process will be presented.

4.1. lipCat's Supply Chain

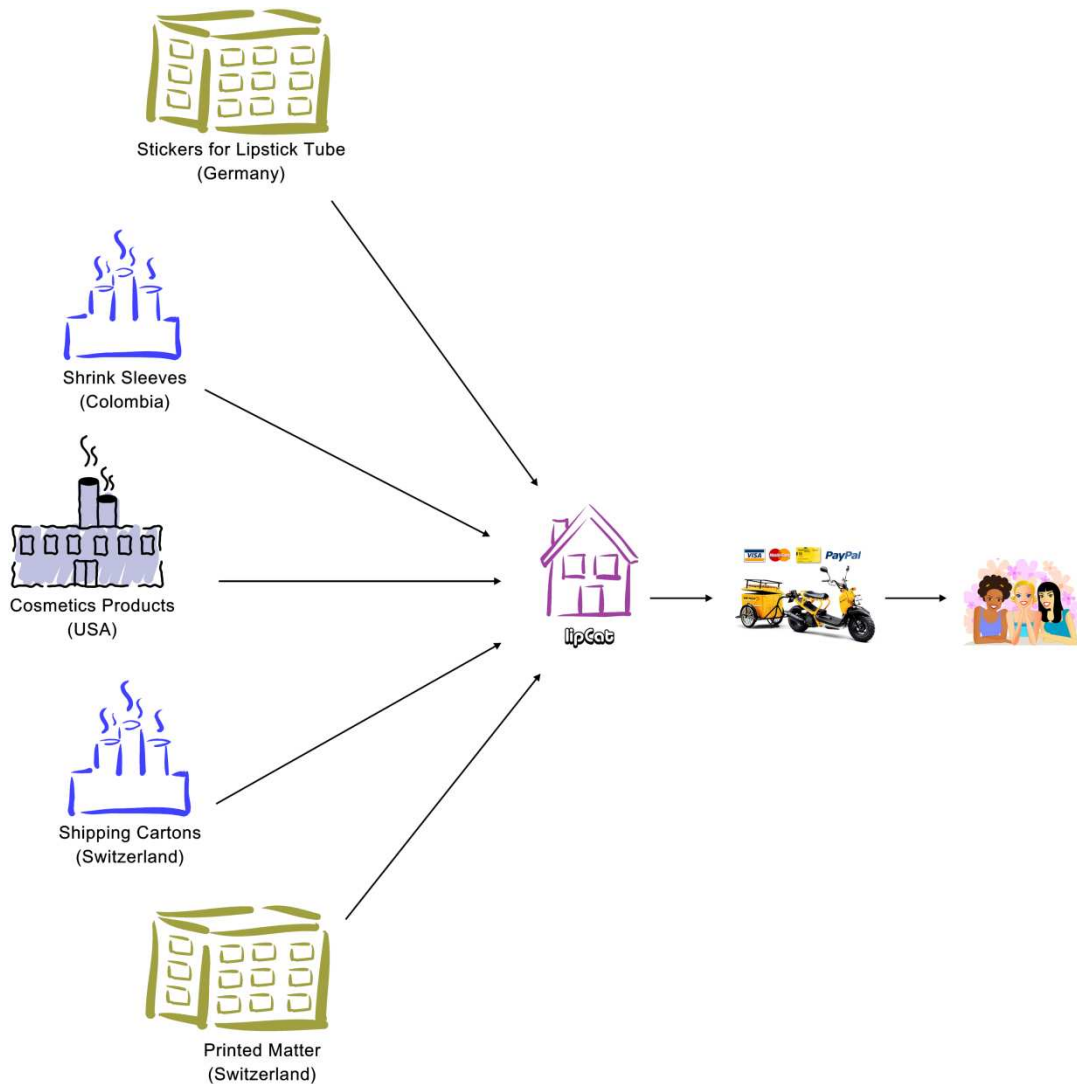


Figure 20: lipCat's Supply Chain. Source: own depiction.

Figure 20 illustrates lipCat's supply chain. The shipping cartons and the printed matter will be bought from Swiss suppliers. While the round stickers will be procured in Germany, the shrink sleeves will be printed in Colombia. The decorative cosmetics products including the packaging will be provided by the US supplier. The Swiss Postal Service handles the electronic payment as well as the delivery of the shipments.

4.2. lipCat's Procurement Process

Figure 21 shows lipCat's procurement process.

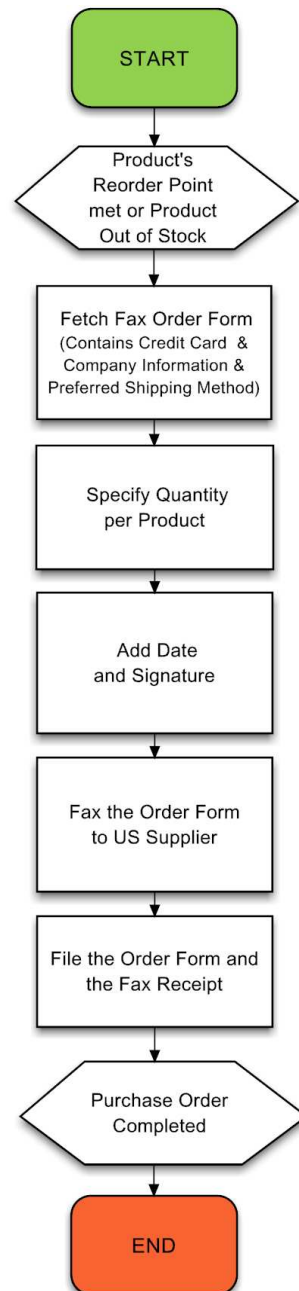


Figure 21: lipCat's procurement process. Source: own depiction.

LipCat's procurement process concerning the cosmetics products is very simple; goods are ordered via fax, the US supplier charges the credit card, and within 3 to 5 working days, the goods are being delivered by UPS. The hexagons mark incidents, the rectangles denote activities and the rounded rectangles indicate the beginning and end of the process. A rhomb stands for a branching; here, this means a 'yes or no' situation.

4.3. lipCat's In-house Labelling Process

lipCat's in-house labelling process is illustrated in Figure 22.



Figure 22: lipCat's in-house labelling process. Source: own depiction.

lipCat's labelling process is pretty much straightforward. With the help of a shrink tunnel, the printed shrink sleeves will be applied manually to each lipstick tube. After approx. 10 to 15 seconds in the heating oven, the shrink sleeve fits perfectly and permanently to the lipstick packaging. The shrink sleeve contains the logo, the tag line, the company address and all the legal requirements (e.g. net weight, date of expiry, etc.) A silver round sticker contains the lot number and the name of the colour; it will be applied manually to the bottom of the lipstick container.

4.4. lipCat's In-House Order Fulfilment Process

Figure 23 shows lipCat's in-house order fulfilment process.

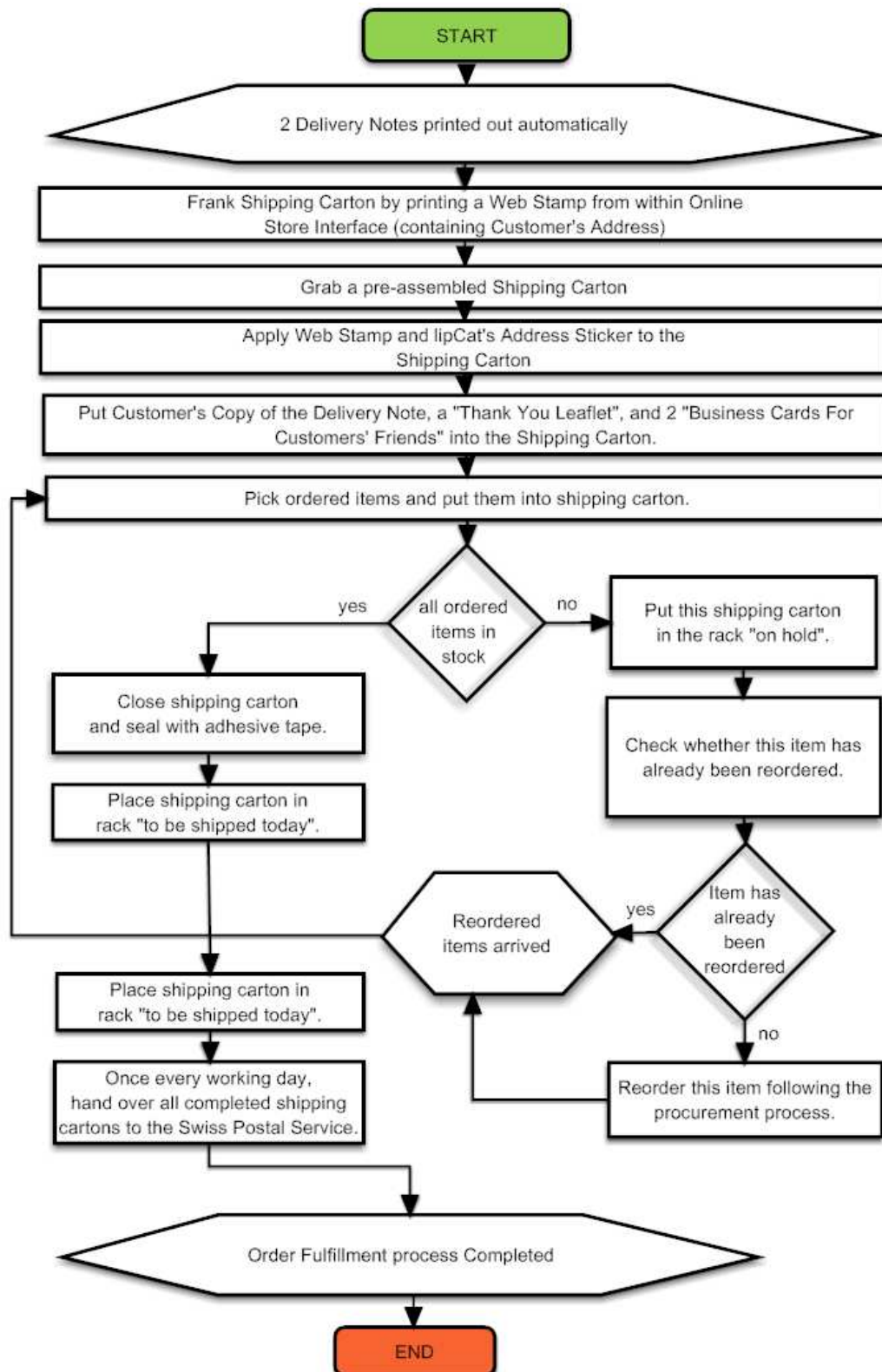


Figure 23: lipCat's In-house Order Fulfilment process. Source: own depiction.

The process is designed so that a single person can complete as many orders per day as possible. The payment transaction is fully automated thanks to the services of external payment providers, such as *Postfinance*. The shipping cartons will be stamped with an innovative online service called 'webstamp', offered by the Swiss Postal Service. Given that all ordered items are in stock, one order can be processed within 90 seconds.

4.5. lipCat's Outsourced Order Fulfilment

Figure 24 visualises lipCat's outsourced order fulfilment.

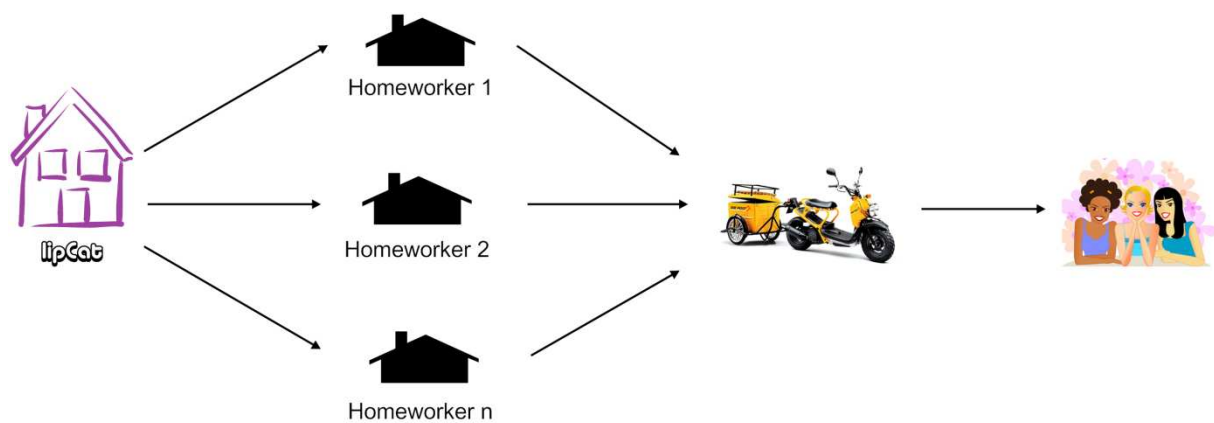


Figure 24: lipCat's outsourced order fulfilment. Source: own depiction.

If and when the internal order fulfilment capacity is being exceeded, the additional orders will be processed by lipCat's network of local home workers. In exchange for a per-order fee (CHF 1.00) the home worker does the picking, packing, and handing over to the Swiss Postal Service. Social charges and other taxes amount to approx. 19% on paid-off piece wage. lipCat forwards the emails containing the order details directly to the home workers. This process adds a high degree of flexibility to lipCat's operations; home workers can be integrated as needed. There is no increase in fixed costs for lipCat. Home workers appreciate this kind of easy, simple and effortless kind of work which they can perform from their homes. It is imperative that lipCat checks the home workers' inventory and postal receipts on a weekly basis.

4.6. lipCat's Order Fulfilment Capacity

lipCat's in-house order fulfilment capacity

Initially, lipCat will have one person at their disposal, working 6 hours daily from Monday to Sunday. Since the order fulfilment time averages 90 seconds, the total daily capacity is 240 orders. For calculation purposes, a 30-day month has been assumed and thus the maximum monthly capacity will be 7,200 orders. The minimum net profit per order will be CHF 3.00. Thus, the maximum achievable profit for lipCat without the help of external home workers is CHF 21,600 per month.

lipCat's outsourced order fulfilment capacity

By outsourcing exceeding demand to local home workers, lipCat's order fulfilment capacity is highly scalable and literally unlimited. There is a large group of people who are actively seeking for home working opportunities in various Swiss Cantons.

CHAPTER FIVE: FINANCIAL STRATEGY

Finance is the core and the backbone of any kind of business across the globe. Business organisations whether small or large require finance to establish, sustain and grow itself in the market. The organisation develops corporate, marketing and operational strategies to enhance growth and development. However, all these strategies can be implemented and executed in an apt manner only if supported by strong financial strategies. The decisions made and the policies formulated in an organisation require a strong financial base.

The major financial decisions that a firm has to make are what kind of investments is required for the business and how should the firm pay for those investments. A successful financial management can be judged by the increase in the value of the firm, but the conundrum that a firm is faced with is, what could be the accurate measures to do so. The solution for this dilemma is the firm's investment or capital budgeting decision and its financing decision. (Brealey et al, 2008)

5.1. The Existing Capital Structure

Capital Structure of a firm refers to the composition of securities and financing sources in a business firm. Determining capital structure of a firm can be an arduous task, especially for a small family business start up firm. Generally it can be determined by analysing the proportion of the equity and debt in a firm. (Myers, 2001)

There is no prescribed theory of debt-equity choice in the capital structure of a business firm, however, certain conditional theories suggests various proportions of capital structure in a firm. For instance, trade off theory advocates that a firm should borrow to the extent that the firm can claim tax benefits to cover the costs in the event of a financial distress. The pecking order theory suggests that a firm should borrow rather than issue equity when internal cash flow is insufficient to fund capital expenditures. The free cash flow theory prescribes that extreme amount of debts in a firm can increase value even though the firm might be exposed to the threat of financial distress, when a firm's operating cash flow significantly exceeds its profitable investment opportunities. (Myers, 2001; Brealey et al, 2008; Arnold, 2008). Furthermore, Miller & Modigliani (1958) proposed that the choice between equity and debt financing does not have any material effect on the value of the firm as they assumed existence of perfect frictionless capital markets (Myers, 2001). A business firm ideally should choose the capital structure based on its requirements and considering all the factors of different prescribed theories.

Factors affecting the decision making policy of an optimal capital structure in a small size business firm are complex in nature. Culture, entrepreneurial characteristics, entrepreneurs' prior experience, goals of the business, lifecycle issues, preferred ownership structures, opinions regarding control, debt-equity ratio are some of the factors affecting decision making process regarding capital structure of the family business firm along with other financial decisions. Furthermore, factors such as size of the firm, family control, business planning and business objectives are associated with debt financing. Also, financial, personal and social variables are the factors that affect the decisions of the family business owners regarding the capital structure of their firm. As, most of the small family business owners lack formal planning process, they tend to rely on family loans as a source of finance. (Romano et al, 2000).

lipCat is a small scale family business firm, hence, the initial capital of lipCat also has been provided by one of the family members as a loan to the company, thus drawing parallel with the mentioned theory. Large business firms generally who aspire to grow and achieve increasing profits consider issuing equity for raising finance as well to expand the business. However, small family business firms like lipCat prefer to raise the initial capital as well the capital for expansion through internal financial sources like close family and friends. This facilitates the firm to retain the control within the family. (Romano et al, 2000).

5.2. Future Financing Options

After achieving a considerable amount of success in the business, most entrepreneurs nurture the ambition to grow, expand and develop the business. Profit maximisation is the most primary goal and objective of any business organisation, and different organisations employ a variety of methods to increase the profitability of the business and scale new heights. Every entrepreneur fosters a dream to expand their small start-up venture into a larger firm and ascend the corporate ladder. A business firm whether small or large needs to formulate plans and policies, devise strategies, perform a thorough analysis of the existing market environment and its competitors to increase its profitability, to grow, develop and expand further. One of the most important steps towards increasing profitability and growing and expanding further is to raise additional capital or inject more funds into the business. Additional capital is required by a firm to support a number of activities, such as hiring professionally qualified staff, purchasing or renting a larger office space, renting a warehouse, introducing sophisticated machinery in the business, increasing the salary of the existing staff and introducing more products. The sources of additional capital are issue of shares and bonds,

seeking funds from the venture capital and private equity industry, obtaining funds from business angels or approaching banks for loans. Large business organisations or multinational corporations might find it relatively easy to raise more capitals through any of the sources mentioned above. However, small business organisations, especially small family business firms might encounter numerous hurdles in obtaining finance for the further growth and expansion of their business. (Williams, 2008; Storey, 2002). Also, availability and the cost of finance can often be a barrier to the growth and expansion plans of a small family business firm (Burns, 2007).

Since lipCat is small size family business firm, its financing options for future growth and expansion are limited. It might find difficult to raise more capital through issue of shares or bonds, however it can exploit other financing options available in the market such as venture capital and private equity industry or business angels in Switzerland. It can also explore the option of obtaining finance from banks as a loan to further grow and expand the business.

The below section mentions the various options that lipCat can explore for acquiring capital for future growth and expansion along with their pros and cons.

5.2.1. Issue of Shares and Bonds

The owner-manager of an entrepreneurial firm injects some initial capital in the business in the form of personal equity or personal loan. The personal equity takes the form of the share capital whereas, the loan is considered as a debt in financial terms. The firm can generate more finance by issuing equity shares in the market or even seek money from the external financiers in the form of a loan by issuing bonds. Issue of shares or bonds can provide adequate finance to small family business firm to grow and expand their operations and to completely exploit the potential of the business. It is a good, secure and long term source of finance for the business. However, the owners have ambiguous attitudes towards the provisions proposed by the external financiers. The owners of the family business firms are reluctant to share their independent ownership and control with a person outside their family as issuing shares might result in dilution of ownership and the entrepreneur might lose control over the business. Also, issuing of equity shares means that the shareholders expect dividends, they might want to interfere in the daily business activities or indulge in the decision making process. (Burns, 2007)

5.2.2. Loans from Family, Friends and Relatives

Friends, family or relatives can prove to be a very useful source of finance for small family business firms like lipCat. Friends, families or relatives are reliable and flexible and the entrepreneur can obtain finance at low or even zero interest rates. Also, the entrepreneur does not have to provide any guarantees or securities to the loan provider as trust prevails among family, friends or relatives. Furthermore, this can help in retaining all the profits of the business within the family. However, non – existence of a formal agreement among the entrepreneur and the family loan provider can strain relationships if repayments are not made as per the verbal agreement. Also, in an event of a business failure the whole family has to suffer the losses. Furthermore, family members might want to indulge in daily business affairs even though the entrepreneur might be reluctant to do so. (Burns, 2007)

5.2.3. Venture Capital, Private Equity and Business Angels

Venture Capital is defined as “A way in which investors support entrepreneurial talent with finance and business skills to exploit market opportunities and thus obtain long term capital gain” (Shilson, 1984, n.p.). Private Equity refers to “a risk capital provided in a wide variety of situations, ranging from finance provided to business start-ups to the purchase of large, mature quoted companies, and everything in between” (Gilligan & Wright, 2010, p.1.)

Venture Capital firms generally provide finance in the form of either equity or loans to businesses with an evidence of a substantial potential for growth. However, since such firms provide risk finance, they expect a high rate of return on their investment. The rate is generally around 30 percent to 60 percent depending on the risk factor of the investment. The composition of finance from venture capital firm is generally made up of equity shares, preference shares as well as loans. This facilitates the entrepreneur to retain the control in the firm. The preference shares generally are either cumulative preference shares which enables the accumulation of unpaid dividends or convertible preference shares. However, venture capital and private equity firms generally provide finance to firms that have substantial requirements of finance for further growth and expansion or even for a start-up. (Burns, 2007)

Family business firms such as lipCat might find it difficult to obtain finance from the venture capital and private equity industry because of its very small size as compared to the businesses the industry generally caters to. However, smaller amount of equity or loans can be obtained from the market as well by small family business firms such as lipCat. The contributors of such small capital are wealthy

individuals and are known as 'Business Angels'. Such individuals cater to the finance requirements of small family firms that might not be able to obtain finance from the venture capital and the private equity industry. Seeking venture capital from Business Angels in Switzerland could be the best possible option for a small family business like lipCat. Also, an investment from Business Angels can help the entrepreneur to take the business to such an extent of growth and expansion that it becomes an attractive prospect for Venture capital and private equity firms. (Burns, 2007)

Venture capitalist and Business Angels are interested in the return that they can make on their investments in a business unlike the banks which are more interested in a security offered by the borrower. They share and bear more risks than banks because if the business fails they tend to lose all the investments unlike the banks that seize the security or the assets that are mortgaged in lieu of the loan.

Switzerland has over 40 venture capital firms and private equity funds providing finance to start-up business and also to small businesses for their future growth and expansion. The private equity market in Switzerland is a growing market; the Swiss private equity industry raised 807m Euros in 2009. Swiss Private Equity & Corporate Finance Association has been responsible for the private equity industry in Switzerland for the last twenty five years. It aims to promote the venture capital and private equity industry in the Swiss political arena, enhance the legal framework, transparency and quality standard within the industry, communicate the significance of the industry among the public and to foster the development of the members of the association with the services and the internal network of the industry. (Swiss Private Equity & Corporate Finance Association, 2010).

Switzerland also has a well developed network of 'Business Angels', viz. BrainstoVentures, Business Angels, Start Angels Network, Club Valaisan des Business Angels, Go Beyond, MSM Investorenvereinigung and Stiftung TECHNOPARK® Zurich . (Swiss Private Equity & Corporate Finance Association, 2010). However, most of these networks demand a minority shareholding in the businesses that they finance, thus the entrepreneur might lose some if his control over the business.

5.2.4. Bank Loans and Bank Overdrafts

Bank finance is one of the main sources of external finance for small business firms. It can be obtained either in the form of a loan or an overdraft on an existing bank account. The banking industry is governed by its policies and each and every bank has different policies with regards to lending limit and criteria. Its lending decisions are based on balance of the bank's lending portfolio.

The general criteria for lending a loan to a business for small firms is, track record or the personal credit history of the owner of the firm, ability of the owner to make a plan and expansion policy successful, the adequacy and the quality of the management team, the purpose of the loan, is the amount requested justified, will the business generate sufficient cash to make repayments to the banks and most significantly what can the entrepreneur offer as a security in lieu of the loan. Banks do not share any profits of the business unlike venture capital and private equity firms; hence they do not share the risks of the business. However, a bank needs to be assured that its loan will be repaid and it will not suffer from any bad debts. (Burns, 2007; Storey, 2002)

While lending, a bank is interested in the financial information and the ratios based on the past as well as the projected financial data. Apart from the financial data and all other characteristics mentioned above, it is imperative that the entrepreneur fosters a cordial relation with the bank. This can help to avoid the problem of information asymmetry. An entrepreneur can also obtain a bank overdraft on an already existing account. It is flexible in a way that once sanctioned it is easily available and can be a very good solution to short term financing. Bank loan however has lower interest rates than a bank overdraft and also the rate of interest is known in advance. However, bank loan can be refused if the entrepreneur does not have an appropriate security to offer. (Burns, 2007; Storey, 2002)

Since, lipCat is a small size family business, the shares of the firm are currently held by three family members and they do not want to part with the ownership or control of the firm. Hence, issuing of shares or bonds will not be the right option for the firm. This could also be a problem in obtaining finance from venture capital and private equity firms or business angels as even they demand certain minority holding in the firm. Even if lipCat seeks finance for future growth and expansion from family, it should ensure that it is within the immediate family and is kept to minimum. lipCat might find it difficult to obtain a loan from the bank as the firm has very limited assets; however it can obtain a overdraft facility to cater to a short term financing requirement.

The best option that a small family business firm like lipCat can explore is invest money generated from the cash flow and company profits till the business reaches a substantial size in the terms of sales, profits and cash flow to obtain finance from external sources such as venture capitalists or banks.

5.3. Financial Bootstrapping

It is widely recognised and acknowledged that start-ups and small scale family business firms contribute significantly towards growth and development of an economy as well as job creation in the society. However, small business firms and especially family business firms have to face an ever recurring problem of lack of capital and financing opportunities for their further growth and expansion. (Winborg & Landstrom, 2000). This hurdle faced by small business firms is known as 'financial gap'. It refers to the problems faced by such firms in attracting long-term finance from banks and venture capital and private equity companies (Bolton, 1971; Stanworth & Gray, 1991; Storey, 2002). According to Hughes, (1996) such a financial gap restrains the development, growth and expansion of small businesses.

The existence and prevalence of information asymmetry between external financiers such as banks, venture capital and private equity companies and the start-up small/family business owners and managers is one of the major reason for the problem of 'financial gap' (Storey, 2002). In most situations start-up small and family business owners or managers pose a superior knowledge about their business potential than the external financiers. Also, start-up small business owners or managers are reluctant to reveal all the intricate information about their businesses to the external financiers. Small and family businesses firms strive hard to conceal the core of the business as well as trade secrets. Hence, they exhibit reluctance in sharing detailed and intricate information about the business for the fear of leaking of their business secrets to their competitors. As a result, external financiers find it difficult to access the information they require and as a consequence the start-up small and family business firms experience uncertainty in acquiring external finance. (Nooteboom, 1993; Winborg & Landstrom, 2000). Thus, market financiers such as banks or venture capital and private equity firms consider small firms as risky investments and are reluctant to offer finance to them (Ebben & Johnson, 2006).

The external financiers and start-up small business owners make an effort and indulge into reducing the information asymmetry. However, this in turn increases costs for handling financial transactions. (Williamson, 1981). Apart from the high financial costs, start-up small business firms find it difficult to identify potential financier and also have to indulge in bonding activities which again increases the costs for small and family businesses (Jensen & Meckling, 1976; Winborg & Landstrom, 2000). Bhide, (1992), states that start-up and small business firms find it difficult to obtain finance from banks as it involves careful planning and thorough preparation to win over the bankers, which most of the small business firms and start-ups lack.

These constraints faced by start-up small and family business owners and managers in obtaining finance from institutional finance sources, forces them to devise and formulate ways where need for resources is secured without any financial transaction. The methods and creative ways of obtaining finance apart from the external financiers are known as 'financial bootstrapping methods'. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006). "Financial Bootstrapping refers to the use of methods for meeting the need for resources without relying on long – term external finance from debt holders and/or new owners". (Winborg & Landstrom, 2000, p. 235-236). It is regarded as a strategic practice employed by start-up and small business firms. Bootstrapping methods mainly aim at reducing the costs of operations, improving cash flow and most significantly utilising internal sources of finance for the firm's growth and expansion. (Ebben & Johnson, 2006).

It's not raising money but having the wits and hustle to do without it.

(Bhide,1992)

The main financial bootstrapping methods that can be employed by start-ups and small scale businesses are 1) owner – provided financing and resources, (2) accounts receivables management methods, (3) sharing or borrowing of resources from other firms, (4) delaying payments, (5) minimisation of resources invested in stock through formal routines, and (6) use of government subsidies. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Owner – provided financing resources: It refers to methods such as finance provided by the owner from his own savings or by obtaining personal loans, loans from owner's family and friends. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Accounts receivables management methods: It refers to methods implemented to improve cash flow from customers such as obtaining payments in advance, charging interest on overdue payments or refraining from doing business with habitual late-paying customers. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Sharing or borrowing of resources from other firms: This includes sharing of resources such as employees, assets or business space with other business firms or coordinating business activities such as purchases with other business firms and benefit from economies of scale. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Delaying Payments: Such methods are aimed at improving cash flow by prolonging the payments to the suppliers by negotiating with them for longer terms of credit. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Minimisation of resources invested in stock through formal routines: In these methods the owners ensure that minimum resources are tied up in the business. They also ensure that minimum level of inventory is maintained in the business. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Use of government subsidies: In this method funds are obtained from governmental institutions in the market at a subsidised rate. (Winborg & Landstrom, 2000; Ebben & Johnson, 2006).

Since, lipCat is a small sized family start-up business it might encounter difficulties mentioned above while obtaining finance from banks or venture capital and private equity companies. As a result it might have to adopt and indulge into one of the financial bootstrapping method. As a small sized family start-up business it has already utilised the method of *Owner – provided financing resources*. lipCat's proprietors have incurred the initial set-up costs from their own family savings and one of the family members has provided the money as a loan to the business. It has also employed the method of *Minimisation of resources invested in stock through formal routines* by limiting the inventory levels and by almost completely eliminating the inventory storage costs.

As mentioned above, financial bootstrapping can not only be employed by start-ups businesses but also by small businesses that want to grow and expand further. In lipCat's case if it wants to further expand its business and faces constraints in obtaining finance from external financiers it can indulge in bootstrapping methods such as *Accounts receivables management methods or Delaying Payment*. Once it has established its customer base it can afford not to tolerate late paying customer and stop supplying to them or demand advance payments from them and then deliver the products. It can also negotiate its credit terms with its suppliers and ask for a discount on its large orders.

Bootstrap Finance can be termed as *The Art of Start-ups*. It is like zero inventories in a just-in-time system as it not only reveals the hidden problems but also compels the company to solve them. A careful market research and analysis, complex financial structures, astute team of board members, quarterly performance reviews are some of the essential requirements for obtaining big money from the market. (Bhide, 1992). Financial bootstrapping helps the start-ups and small businesses to avoid these hassles and yet obtain finance and establish themselves in the market. It thus mainly aims at reducing the amount of external debt and equity financing required from banks and investors. It is an essential response to the financial constraints encountered by start-ups and small businesses. (Ebben & Johnson, 2006). It enables the owners of a small business firm to ensure efficient and effective financial management which is imperative for the survival and prosperity of any business (Ekanem, 2005). However, it is also imperative that the extent of bootstrapping is monitored by the owner and is employed only at the rate that can be afforded and controlled by a start-up or a small business firm (Bhide, 1992).

5.4. Strategic Alliances / Joint Ventures

The success of a business organisation depends on how long it can sustain itself in a competitive market, especially a small family business firm. An entrepreneur has to decide whether a business should continue in its present form or should it grow and expand further. If the entrepreneur decides to expand the business the pertinent question is how can it be done?

Strategic Alliance is one such ingredient that can help a business firm achieve instant market success as it helps the business to acquire fast and flexible means of market access, economies of scale and competence development (Larsson et al, 1998). It has been a key volatile component of many successful corporations and cornerstone of many conglomerates to gain competitive advantage (Larsson et al, 1998; Astley & Brahm 1989; Hamel, 1991; Lorange & Roos,1992; Ring & Van de Ven 1994).

It is very imperative for a small business firm like lipCat to indulge into a strategic alliance with its key business partners such as the Swiss postal department or with the New York based supplier of its products. lipCat will be employing the facilities of Swiss postal service to deliver its products to the customers. As a result, lipCat could engage in a strategic alliance with the Swiss Postal Service.

Swiss Postal Service apart from offering the traditional postal service offers a variety of other services to its customers. A Swiss postal customer can avail of facilities such as shipping, logistics as well as financial services such as bank account, money transfer, electronic payment, loans and credit cards. Also the Swiss Post has several hundred branches located within a short distance of each other. In order to increase its customer base, the Swiss Postal Service indulges in promotion specifically directed towards the youth. For instance, it is motivating the younger generation to buy festival tickets through their cell phone payment. lipCat can thus indulge into an alliance with the Swiss Postal service as it can sell lipCat's products along with the different products it sells in its shops. (PostFinance Swiss Post; Swiss Post).

Another strategic alliance that a lipCat can contemplate about forming is with its United States based manufacturer and supplier. It can get into long term contract and agreements with the US based company and can avail of discounts on future purchases.

However, forming a strategic alliance is also considered a sign of weakening in a market place. The firm that wants to form a strategic alliance can be termed as a loser in the market. The common perception is that a vulnerable firm indulges in a strategic alliance in order to stay afloat in the market. When a firm forms strategic alliance with a firm that has a stronghold in the market, its

chances of survival are better than being alone and competing against all the firms. (Larsson et al, 1998).

lipCat will have to maintain caution and prudence if it decides to form strategic alliance as it can give out a wrong signal to its customers of being weak.

5.5. Exit Strategies

It is imperative that entrepreneurs should realise the fact that they will ultimately exit the business that they have started. Business owners retain an instilled intention to retire from the business either by passing it on to a family member or by selling it. However, small business owners often have to exit their business prematurely in a variety of ways. For instance, closing down an unsuccessful business, merging or being acquired by a larger established business firm, selling a success business firm to a larger business firm. Since the entrepreneur and his business are inseparable, the exit of the business by either of these ways has a significant financial impact on the business as well as on the personal financial well-being of the entrepreneur. (Sihler et al, 2004)

Exit Strategies (Failure)

Every entrepreneur aspires to grow and expand his small business into a large corporate house. However, often small businesses might find it difficult to survive in a highly competitive market and hence the entrepreneur might have to exit it prematurely. (Sihler et al, 2004)

Some of the main causes for failure of small businesses are exaggerated opinion of business competency, limited formal education, reluctance to change and lack of innovation, personal tastes and preferences; bad business decisions (Burns, 2007). However, failure of a small business does not necessarily indicate inadequate quality and capability of the owner or the manager. The changes in the economic cycles, technology, regulations, failure of major suppliers as well as customers are amongst the major attributes of an unsuccessful business. Generally small businesses operate on a cash basis and thus do not have any debt related problems. Hence, majority of the small businesses do not go through a formal bankruptcy process. (Sihler et al, 2004)

Sihler et al, (2004) recommend the following steps in case of a closure due to failure:

- Convert all the possible assets into cash and pay of the liabilities. All receivables should be collected, inventory sold off and no new purchases should be made.

- Announce the formal date of closure and all the stakeholders (suppliers, customers, and legal authorities) should be intimated about the same.
- Sale of non cash and non liquid assets if any.
- Final closure of the business and paying off the rent if there any rented properties or selling the warehouse if owned.
- Completion of final tax returns, other legal documents, surrenders of business license to the legal or government authorities.

The choice of how each and every small business will proceed with the closure procedure depends on the size of the business, its value, customer base, the nature of its debts.

Exit Strategies (Successful)

Even though if a small business venture is successful, an entrepreneur might want to exit the business. There are several reasons that an entrepreneurial owner, might want to exit the business inspite of being successful such as a general desire to venture into something else after being successful and an urge to do something else, a general retirement, lack of a family member as a successor of the business, estate planning and settlement issues. (Sihler et al, 2004)

The small business owner contemplating exit can choose from a variety of options such as initial public offering, liquidating the assets of the business, hiring external management by retaining the ownership, transferring the business to a family member, selling the business or merging with another business, establishing an Employee Stock Ownership Plan to buy some or all of the equity in the business. (Sihler et al, 2004)

An entrepreneur has to select and implement the exit strategy by carefully considering issues such as timing of the exit, form of consideration, types of buyers, management incentives and succession, indemnification and tail liability problems, valuation, taxes, certainty of closure, and process. (Sihler et al, 2004)

If the lipCat as a business organisation grows and expands to a higher level, the best options for it to explore would be either to indulge in floatation or selling or merging the business with a larger and more successful business organisation. However, incase of floatation the owners of lipCat will have to be careful about the issue size of the shares as it would not want to lose the control of the business. Hence, the issue size should not be more than 49 % of the existing equity capital if they want to retain control in the business. However, of the owners decide to exit completely out of the venture they should sell of their entire stake.

CHAPTER SIX: STRATEGY IMPLEMENTATION ROADMAP AND MILESTONES

It is crucial that the chosen strategies are executed in an apt manner; therefore a strategy implementation roadmap has been developed as reflected in Figure 25.

	Objectives	Activities	Milestones
Corporate	Build good relationships with suppliers.	Visit US supplier. Send Christmas cards.	15.09.2010 Beyond Beauty Exhibition, Paris 15th December Send Christmas card.
	Meet the needs of the customers.	Collect feedback & suggestions from customers.	30th June & 31st December Conduct electronic customer satisfaction query.
	Achieve the set profitability targets for Switzerland and the EU countries.	See functional activities.	31.12.2011 --> min. CHF 12,000 profit 31.12.2012 --> min. CHF 36,000 profit 31.12.2013 --> min. CHF 110,000 profit 31.12.2014 --> min. CHF 200,000 profit 31.12.2015 --> min. CHF 330,000 profit
Operations	Keep fixed costs to a minimum.	Periodically check for cost reduction opportunities regarding administration and operations ('lean audit').	1st January 1st April 1st July 1st October
	Ensure high quality packaging appearance.	Every packaged item is being visually checked for deficiency prior to shipping.	permanently
	Keep promised delivery dates.	Careful inventory control.	permanently
Marketing	Achieve the set volume of orders targets for Switzerland and the EU countries.	Carry out planned Marketing Mix activities.	31.12.2011 --> min. 8,004 orders 31.12.2012 --> min. 24,000 orders 31.12.2013 --> min. 34,992 orders 31.12.2014 --> min. 59,988 orders 31.12.2015 --> min. 105,000 orders
		Develop EU expansion strategy.	28.02.2012 Expansion strategy completed.
	Provide customers with a regularly growing product range.	Introduce mascara, eye shadows, rouge, foundations, and accessories.	01.01.2012
		Introduce fragrances and branded t-shirts.	01.01.2013
	Keep each product category up-to-date.	Launch a new product per category.	1st January & 1st July
Finance	Customers shall know and like the brand and the advertising campaign.	Conduct surveys in the German speaking part of Switzerland.	10th December
	Ensure a positive cash flow.	Accept direct electronic payment only. Try to delay payments to suppliers.	permanently
	Ensure the long-term survival and growth of the firm.	Negotiate with the US supplier and the Swiss Postal Service about a strategic alliance and/or financial participation.	01.06.2011 Start negotiations / present progress so far.

Figure 25: lipCat's Strategy Implementation Roadmap and Milestones. Source: own depiction.

Conclusion

All the functions in an organisation are interrelated and interdisciplinary. The development of corporate, marketing, operations and financial strategy for lipCat Private Limited has enabled us to bring these different aspects together and put our theoretical knowledge acquired in the MBA course to a practical purpose.

A rational strategy, well formulated plans and policies, a precise as well as concise set of objectives and goals is an essential combination for a business organisation to enter an already existing market, conquer over all the competitors and finally sustain the apex position in the market. Even though lipCat is small size family start-up business, it is necessary that its owners are aware of the market situation of the business activities that the company will indulge into. Hence even though the strategy framework applied in lipCat's case might be more suitable for a larger business organisation, it has provided the owners of the company more insights into the market, its available limited resources and how they can be exploited in a lucrative manner.

The company will engage in business activities in a highly competitive market where major firms have already established their presence and captured major share. However, lipCat plans to focus on its promising niche which comprises better quality, more variety and lesser prices in combination with unique and appealing brand personality.

Even though the success of the brand lipCat is not an assured fact, there is potential in the market that the owners plan to exploit. lipCat enjoys certain advantages such as it has negligible fixed costs, no labour costs, and no contract with any of its stakeholders (suppliers or customers) which allows it to be flexible in its operations and alter them as and when required to suit the external business environmental factors. In case of a substantial demand for lipCat's products, the company could fulfil it with the help of the home workers network in Switzerland thus maintaining the fixed costs at a minimum level.

The main challenge that lipCat as a business will face is, the fact that reluctance of women to purchase products such as decorative cosmetics over the internet. However, the company with the help of modern media and communication will indulge into advertising its products with a focus on social networking sites and sampling its products to prospective customers.

The success of a small size family business start-up such as lipCat amidst many incumbent players will be a challenging goal to achieve. However, the mentioned strategies will ensure that lipCat enters the market; meticulous and prudent management of its limited resources will enable it to survive the

competition in the market and build a sustainable business model and by building a loyal customer base and capitalising on its strength emerge ahead of its competitors in the targeted niche market.

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Appendix 1: Management Project Proposal Swapnil Deshmukh

The Development of a Corporate, Marketing, Operations and Financial Strategy for a Swiss Cosmetics start-up

Objective

The objective of this group management project is to decide and formulate corporate strategy, marketing strategy, operations strategy and financial strategy for a Swiss cosmetic start up organisation, viz. lipCat™ Ltd. The project involves me and my MBA classmate Axel Schmidt.

Since I am pursuing my MBA specialising in finance, I would indulge in building up the financial strategy for the firm. The main content of the financial strategy and the analysis would be to analyse the financial viability, forecast the future growth, provide for the risks involved and explore possible further business expansion opportunities.

The Organisation

lipCat™ Ltd. is a private limited company, registered at Companies House Cardiff on 1st September 2009 with its registered office being in Central London. The proprietors of the firm, Axel Schmidt and his family are all managing partners in the company with a share holding of 20% and 80% respectively. The cost for setting up a private limited company in Switzerland is CHF 20,000 whereas the cost in the U.K. is 1 GBP. As this proves to be cost efficient, the proprietors of lipCat™ Ltd. set up a subsidiary of the U.K. registered company in Switzerland. This will be elaborated in the main report.

lipCat™ Ltd. will indulge in producing high quality lipstick and later depending on the success of the initial idea will further expand its business to manufacturing and producing other cosmetics products. The organisation initially plans to concentrate on markets in Switzerland, but will also accept orders from European countries.

The Product and the Opportunity

The research carried out by lipCat™ Ltd. illustrates that lipsticks of good quality are expensive in Switzerland and cheap lipsticks even though available are of very poor quality. It aims to provide high quality lipsticks at affordable prices.

Business Model

The supplier for the products is based in New York and has been in the cosmetic business for over forty years. All the products would be sold only over the internet. The fixed costs for lipCat™ Ltd. are very low as the business will be conducted by proprietor's family by stocking the inventory in the family house. Also the shipping costs will be applicable as per the normal postal rates rather than the ones applicable to parcels. The organisation does not plan to hire any employees as of now and all business activities will be conducted by the family members.

The organisation has a good potential of growing and developing its business activities as the Swiss cosmetics industry has shown a rising trend for the past few years. The annual turnover being as in the below table,

YEAR	TURNOVER IN CHF IN MILLIONS
2006	270.5
2007	283.6
2008	294.9

Source: Swiss Cosmetic and Detergent Association, SKW

Proposed Structure

The report will start with an Executive Summary, followed by the company introduction.

Corporate Strategy

This chapter will follow a diagnosis, formulation, and implementation approach regarding strategy.

Diagnosis: Performing a situation analysis (inter alia SWOT and PESTLE), i.e. internal (organisation; strengths and weaknesses) and external (environment; opportunities and threats). The latter will comprise a thorough analysis of the industry characteristics (Porter's Five Forces), the market size (secondary research data and market reports), the incumbent and potential competitors (desk research) as well as their products.

Formulation: A clear set of strategic recommendations (including justification) will be made based on the above analysis. The vision, mission, company values, and the strategic objectives will be defined. The goal is to create (if possible) a sustainable competitive advantage for lipCat™ Ltd and

effective entry barriers for potential imitators. Different strategic options will be developed and evaluated, in order to identify the most efficient. Amongst others, the following theoretical frameworks will be applied: the Strategy Diamond (Hambrick & Fredrickson), Generic Strategies (Porter), and Activity-systems Mapping (Porter).

Implementation: To ensure that the chosen strategy is implemented in an apt manner, there will be strategy roadmaps and action plans with measurable milestones and targets.

The emphasis will be on the market penetration strategy, growth strategy (e.g. trading up, internationalisation, line extension, range extension, diversification, etc.), competitive strategy, business positioning strategy, and the identification of strategic groups of competitors. Also, the concept of scenario planning will be employed.

Marketing Strategy

The Marketing Strategy will be derived from the developed Business Strategy. This part will start with a careful analysis of Swiss female cosmetics consumers by conducting a primary market research and secondary market research. The data from this research will be utilised to identify and analyse their characteristics, behaviour (utilisation and buying), attitudes, needs, motifs, and media-accessibility. The market will be divided into meaningful segments. The target group of lipCat™ will be represented by the members of one or more segments. A precise and distinctive positioning will be tailored to the specific needs and characteristics of the chosen target segment(s). Specific Marketing Objectives will be defined. Moreover, lipCat™'s value proposition and USP(s) will be devised. Based on the marketing objectives, the four Ps of the Marketing Mix will be developed; Product, Price, Place, and Promotion. The latter will include the copy strategy (consumer benefit, reason why, tonality), the media strategy, and communications objectives will also be set. In addition, a Corporate Design Manual will be compiled. The appropriateness and feasibility of Guerilla Marketing activities will be reasoned. A marketing roadmap will clearly display all the intended marketing activities. Of course, these activities will be listed in a marketing budget.

Special emphasis will be put on the concepts of relationship marketing (e.g. word of mouth, brand ambassador strategies) and customer retention (e.g. loyalty programmes) as well as strategic brand management. A promising brand identity will be developed, based on the expectations and preferences of the target group(s). A tool that will be used to design the brand's essence, character, and purpose will be the Brand Essence Wheel. It is crucial to occupy a unique, valued position (exclusive, ideal theme) in the minds of the customers. It will further be decided upon whether to launch either a product or brand campaign.

Operations Strategy

This section will illustrate and analyse the supply chain of lipCat™. Inherent risks will be identified and appropriate counter-strategies will be introduced. Tailored to the givens of the infrastructure of the family house, an optimal, comprehensive order fulfilment process will be designed, documented, and implemented. It is of utmost importance to lipCat™ that the time it takes to process one order is kept to a minimum. The software SmartDraw will be used for visualising the process chart. Moreover, formal processes will be developed for procurement and for the case that internal order fulfilment capacity is being exceeded. In this case, lipCat™ has access to a local network of home workers. A concept for the integration of these home workers into the operations of lipCat™ will also be developed. Of course, the breakeven point and the typical order capacity will be calculated, too.

Finance Strategy (Swapnil Deshmukh)

The Finance strategy will address the questions pertaining to investment and financing opportunities for lipCat™ Ltd. It will include how the present capital of the organisation has been raised and what other financing options can be explored for the future growth and expansion of the company. The financing options that the company might consider are acquiring more capital from business angels in Switzerland or from the Venture Capitalists. Furthermore, the company could also look for finance from other sources such as the banking sector in the forms of business expansion loans. The company depending on its success might also choose to float.

This section will explore the pros and cons of various financing options mentioned above and will recommend the best possible options based on the research, present situation and the growth forecast for the company. It will analyse the option of Private Equity for a small scale organisation like lipCat™ Ltd. with regards to what adversities the company face could.

If the company is faced with growing competition it might also explore the possibility of forming a Joint Venture or strategic alliances with key business partners.

lipCat™ Ltd. plans to expand its business activities in the future, however the proprietors are willing to explore the option of exiting from the business if further capital is obtained from the Venture Capital and the Private Equity industry in Switzerland. The company could look at different exit scenarios.

Primary Market Research (Individual Project of Axel Schmidt)

Financial Analysis - Individual Project for Swapnil Deshmukh

Financing

Business organisations whether small or large require finance to establish, sustain and grow itself in the market. Finance is the core and the backbone of any kind of business across the globe. The organisation develops corporate, marketing and operational strategies to enhance growth and development. However, all these strategies can be implemented and executed in an apt manner only if supported by strong financial strategies. The decisions made and the policies formulated in an organisation require a strong financial base.

The major financial decisions that a firm has to make are what kind of investments is required for the business and how should the firm pay for those investments. A successful financial management can be judged by the increase in the value of the firm, but the conundrum that a firm is faced with is, what could be the accurate measures to do so. The solution for this dilemma is the firm's investment or capital budgeting decision and its financing decision. (Brealey et al, 2008)

General Risk Assessment (Financial and Non – Financial)

Non – Financial Analysis

Non financial analysis refers to the impact caused by factors such as political, economical, social, technological, environmental and legal. It is very imperative that a thorough assessment of all these factors is performed to check the viability of an investment from the non – financial perspective. For instance in this case, lipCat™ Ltd. has only one supplier based in United States, hence the risk of being dependent on only one supplier will be analysed in detail in the main report.

The analysis will also consider the above mentioned factors with regards to Switzerland, United States and United Kingdom with regards to different risks.

Financial Analysis

Financial analysis will be based on different financial factors affecting the cash flow, NPV and the IRR for the proposal. It aims to evaluate the investment proposal by considering and assuming changes in the financial aspects of the project such as price, interest rates, foreign exchange, taxation policies and inflation.

Scenario analysis refers to the process where simulated images of future development of the external environment are created in order to make strategic business decisions. It helps to highlight the crucial uncertainties and the impact they might have on business decisions that managers might have to make (Postma & Liebl, 2005).

The above mentioned factors will be analysed by projecting different scenarios and analysing their financial impact.

It will include sensitivity analysis and real options.

Cash flow Projections/ Forecasts

Cash flow refers to injection of money into a business and deducting it from the money going out for the business. This section of the project will involve a thorough analysis of the company's financial statements. A detailed profit & loss account, balance sheet and cash flow forecasts will be prepared. The data required will be provided by the company's proprietors.

Net Present Value

It is imperative that while undertaking any kind of investments, whether for personal purpose or for business purpose; the concept of time value of money should be considered. It refers to the sacrifice of possessing something now that an investor has to forego for setting aside money for investment. Thus "investor's opportunity cost is the sacrifice of the return available on the best foregone alternative", (Arnold, 2008, p. 50). The concept of Net Present Value and Internal Rate of Return are discounted cash flow techniques and thus consider the concept of time value of money (Arnold, 2008).

"An investment proposal's net present value is derived by discounting the future net cash receipts at a rate which reflects the value of the alternative use of the funds, summing them over the life of the proposal and deducting initial outlay" (Arnold, 2008, p. 56).

The formula for Net Present Value is,

$$NPV = \frac{CF_0}{(1+r)^0} + \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

Where, CF_0 refers to cash flow at time zero (t_0), and

CF_1, CF_2, CF_3, CF_n = cash flows at different times after time zero, i.e. one year after time zero, two years after time zero, three years after time zero and so on.

The logic used to appraise financial viability of the project is, if Net Present Value is greater than or equal to zero the business has good prospects in the future, whereas if the Net Present Value of the is less than zero the business or the project is not worth investing in.

Internal Rate of Return

The Internal Rate of Return is defined as “the rate of discount that makes NPV = 0. The rule for decisions based on the Internal Rate of Return is, if the discounted value after NPV calculations is greater than the discount rate used, the business proposal is financial viable, whereas if the discounted value after NPV calculations is less than the discount rate used, the business proposal is not worth investing in and hence should be rejected. In this particular case, the IRR will be decided based with agreements with the proprietors of lipCat™ Ltd.

Beta (β)

As per the capital asset pricing model (CAPM), Beta (β) is defined as the systematic risk in a portfolio (Arnold, 2008). “It measures the covariance between the returns on a particular share with the returns on the market as a whole, usually measured by a market index” (Arnold, 2008, p. 286).

The formula for Beta (β) is,

$$\text{Beta of asset, } j = \frac{\text{Covariance of asset } j \text{ with the market portfolio}}{\text{Variance of the market portfolio}}$$

$$\beta_j = \frac{\text{Cov}(R_j, R_M)}{\sigma^2_M}$$

The Beta for this project will be based on assumptions after considering Beta for similar small scale businesses in Switzerland as well as Beta for the cosmetics industry in Switzerland. However, since this is a very small company, such a financial analysis might not be precise and accurate, hence it will be mentioned as limitations of applying such financial techniques to small scale project appraisal.

Taxation Policies

Taxation policies significantly affect the viability of a project (Arnold, 2008). Since the company is registered in the United Kingdom and will be operating a branch in Switzerland, the project will contain a thorough analysis of taxation policies in United Kingdom and Switzerland. It will include scrutiny of impact of corporate tax in the U.K. and Switzerland.

Inflation

Inflation refers to changes in the prices of goods and services in an economy (Arnold, 2008). This section will explore the possible effects of inflation in Switzerland and United Kingdom.

Foreign Exchange Risk

lipCat™ Ltd will be dealing with two currencies, i.e. United States Dollar (USD) and the Swiss Franc (CHF). An analysis of foreign exchange risk will be performed and measures to manage these risks will be developed, such as a hedge against the foreign exchange risks. Also, the role of GBP will be explored since the company is registered in the United Kingdom. (Eiteman et al, 2010)

Conclusion

The conclusion of the project will be based on analysis and development of all the above mentioned factors, thus examining the viability of a start up business by exploring various possible options with the published literature and academic books.

WORD COUNT = 2468

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Appendix 2: Management Project Proposal Axel Schmidt

Management Project Proposal: Axel Schmidt (ID: 4105599)

Type of project: Group Management Project

Students: Swapnil Deshmukh and Axel Schmidt

Supervisor: Chris Mahon

Handed in: 18th June 2010

The Development of a Corporate, Marketing, Operations, and Financial Strategy for a Swiss Cosmetics Start-up

Organisation linked: lipCat™ Ltd. Switzerland branch

For many years, I have been thinking about establishing an own business. I enrolled for the Nottingham Entrepreneurship MBA, because I expected of this program to be afterwards in the position to create and manage a successful smaller business from scratch. Indeed, this course provided me with invaluable entrepreneurial knowledge and skills.

During the last couple of years, I was actively looking for promising business opportunities. Soon, I realised that the private label manufacturing sector offered great value to novice entrepreneurs with, of course, very limited resources. Consistently, I screened lots of different goods that could be branded privately. Eventually, an American cosmetics manufacturer offered not only high quality, competitive prices, and a huge product range, but also offered something very unusual: there was no minimum purchase quantity and only a very modest minimum order value. To top this, the supplier was successfully in business for over forty years.

I started analysing the Swiss cosmetics market and found out that there is a certain gap; most lipstick products are rather highly priced. There are a few low-price lipstick brands; however, their quality and colour variety is indeed terrible. Furthermore, I would be able to even undercut their prices.

My mother is already running her own furniture and home accessories business for several years. My father used to be an urologist and is now retired. In our family, there is quite a good entrepreneurial

spirit and we are a very good team. My sister, who is also a medical doctor, mentioned a certain interest of joining my mother's or my future business in a couple of years' time. So, we decided to set up a small cosmetics business in Switzerland, which could be run (initially) as an 'alongside' business or 'project' as I like to call it. The absence of large investments, high fixed costs or having to pay additional employees minimises the negative consequences in case of a complete failure of the start-up.

Together, we want to leverage our family advantages: my mother can easily integrate the administrative tasks into her daily routine, my father can do the final wrapping, picking of goods, and the shipping. The business will be financed by my parents and I will further inject a monthly sum from my future job (after the MBA). I will contribute to the success of this start-up through my extensive business, marketing, and entrepreneurship knowledge and skills. Furthermore, I am very familiar with online shopping applications; the online distribution will be the backbone of our business model. We would like to grow the business organically, steadily, and sustainably.

On 1st September 2009, lipCat™ Ltd. has been incorporated in the UK. In Switzerland, lipCat™ will be operating as the Swiss branch of lipCat™ Ltd. The reason for that is not tax considerations, but simply because it is much cheaper, faster, and easier to set up a UK limited instead of a Swiss limited company. In Switzerland, a founding capital of at least 20,000 Swiss Francs would have been necessary; in the UK, even GBP 1.00 is sufficient. We did not want to have so much money locked in into this 'project'.

My MBA course mate Swapnil Deshmukh has become a true friend and I very much appreciate his knowledge and work ethics. So, I was very glad when he declared that he wanted to join my Management Project on lipCat™. He will contribute to the lipCat™ strategy part and cover the financial part of the project.

This Management Project shall reveal the exact potential for lipCat™ in the Swiss cosmetics market and the result shall be a ready, complete 'battle plan' on how to enter this market successfully and how to grow the business further over time.

The proposed structure of this Management Project

The report will start with an Executive Summary, followed by the company introduction.

Part One: Corporate Strategy

This chapter will follow a *diagnosis, formulation, and implementation* approach regarding strategy.

Diagnosis: Performing a situation analysis (inter alia SWOT and PESTL), i.e. internal (organisation; strengths and weaknesses) and external (environment; opportunities and threats). The latter will comprise a thorough analysis of the industry characteristics (Porter's Five Forces), the market size (secondary research data and market reports), the incumbent and potential competitors (desk research) as well as their products.

Formulation: Then, a clear set of strategic recommendations (including justification) will be made. The vision, mission, company values, and the strategic objectives will be defined. The goal is to create (if possible) a sustainable competitive advantage for lipCat™ and effective entry barriers for potential imitators. Different strategic options shall be developed and then be evaluated, in order to identify the most promising one. Amongst others, the following theoretical frameworks will be applied: the Strategy Diamond (Hambrick & Fredrickson), Generic Strategies (Porter), and Activity-systems Mapping (Porter).

Implementation: To ensure that the chosen strategy will be put into action properly, there will be strategy roadmaps and action plans with measurable milestones and targets.

In particular, attention will be paid to the market penetration strategy, growth strategy (e.g. trading up, internationalisation, line extension, range extension, diversification, etc.), competitive strategy, business positioning strategy, and the identification of strategic groups of competitors. Scenario planning will also be used.

Amongst others, the following text book will be used for the strategy section: Dobson, P., Starkey, K. & Richards, J. (2004) *Strategic Management: Issues and Cases*, Blackwell.

Part Two: Marketing Strategy

The Marketing Strategy will be derived from the developed Business Strategy. This part will start with a careful analysis of Swiss female cosmetics consumers. With the help of an own primary market research (see individual project part description) and secondary market research data, their

characteristics, behaviour (utilisation and buying), attitudes, needs, motifs, and media-accessibility will be identified and analysed. The market will be divided into meaningful segments. The target group of lipCat™ will be represented by the members of one or more segments. A precise and distinctive positioning will be tailored to the specific needs and characteristics of the chosen target segment(s). Specific Marketing Objectives will be defined. Moreover, lipCat™'s value proposition and USP(s) will be devised.

Based on the marketing objectives, the four Ps of the Marketing Mix will be developed; Product, Price, Place, and Promotion. The latter will include the copy strategy (consumer benefit, reason why, tonality), the media strategy, and communications objectives will also be set. In addition, a Corporate Design Manual will be compiled. The appropriateness and feasibility of Guerilla Marketing activities will be reasoned. A marketing roadmap will clearly display all the intended marketing activities. Of course, these activities will be listed in a marketing budget.

Special emphasis will be put on the concepts of relationship marketing (e.g. word of mouth, brand ambassador strategies) and customer retention (e.g. loyalty programmes) as well as strategic brand management. A promising brand identity will be developed, based on the expectations and preferences of the target group(s). A tool that will be used to design the brand's essence, character, and purpose will be the Brand Essence Wheel. It is crucial to occupy a unique, valued position (exclusive, ideal theme) in the minds of the customers. It will further be decided upon whether to launch either a product or brand campaign.

The prevailing text book regarding branding issues will be Kapferer, J.N. (2008). *The New Strategic Brand Management*. London: Kogan Page.

Part Three: Operations Strategy

This section will illustrate and analyse the supply chain of lipCat™. Inherent risks will be identified and appropriate counter-strategies will be introduced. Tailored to the givens of the infrastructure of the family house, an optimal, comprehensive order fulfilment process will be designed, documented, and implemented. It is of utmost importance to lipCat™ that the time it takes to process one order is kept to a minimum. The software *SmartDraw* will be used for visualising the process chart. Moreover, formal processes will be developed for procurement and for the case that internal order fulfilment capacity is being exceeded. In this case, lipCat™ has access to a local network of home workers. A concept for the integration of these home workers into the operations of lipCat™ will also be developed. Of course, the break even point and the typical order capacity will be calculated, too.

Part Four: Finance Strategy

The Finance strategy will address the questions pertaining to investment and financing opportunities for lipCat™. It will include how the present capital of the organisation has been raised and what other financing options can be explored for the future growth and expansion of the company. The financing options that the company might consider are acquiring more capital from business angels in Switzerland or from the Venture Capitalists. Furthermore, the company could also look for finance from other sources such as the banking sector in the forms of business expansion loans.

This section will explore the pros and cons of various financing options mentioned above and will recommend the best possible options based on the research, present situation and the growth forecast for the company. It will analyse the option of Private Equity for a small scale organisation like lipCat™ with regards to what adversities the company could face.

If the company is faced with growing competition it might also explore the possibility of forming a Joint Venture or strategic alliances with key business partners. Alliances would be imaginable with, for instance, the key supplier or with the Swiss postal service, which also has a financial business unit. The latter player earns money when lipCat™ is earning money; through postal rates and commissions for online payment transactions. Moreover, they have a nationwide branch network.

lipCat™ plans to expand its business activities in the future (as a family business), however the proprietors are willing to explore the option of exiting from the business if further capital is obtained from the Venture Capital and the Private Equity industry in Switzerland. The company could look at different exit scenarios (e.g. a trade sale to a strategic buyer).

Part Five: Primary Research (Individual Project of Axel Schmidt)

My individual part of this Management Project consists of a market research. With the help of two surveys, I intend to gather valuable insight concerning the utilisation and buying behaviour of the intended target customers of lipCat™. The brand name, the logo, the company colours and the initial product line will be appealing to the younger women. Hence, the participants of the surveys will be between 15 to 24 years old. The results of this market research can have an influence on the target group definition. The segmentation in part two of this management project will be applied to the group of women under the age of 30.

Approach and methodology

Survey number one is targeted at ten to fifteen young Swiss women aged between 15 to 20. In addition to many questions in the **paper based** questionnaire regarding their cosmetics usage and buying behaviour, probands will have the opportunity to test the actual product (lipsticks in the versions “creme” and “pearl”) as it is intended to introduce to the Swiss market in late 2010. The women will be able to choose two lipstick colours and apply those. Hence, they will be able to rate (according to a standardised rating checklist) the perceived quality, gloss, variety of shades, the packaging, among others. Furthermore, probands will be asked to rate the lipCat™ logo, tag line, key visuals, pricing, shipping costs, etc. The whole survey procedure will not last longer than approx. 45 minutes. Participants will be compensated with a gift voucher of 15.00 Swiss Francs (for local cinema or department store or fashion retailer chain). In addition, they may keep their two selected lipsticks. Since my mother is working part-time as a teacher in a local school, we thought it would be a good idea to invite students to take part in this survey. The head of school will function as a gatekeeper to access the probands. In the context of this survey, I will be staying in Switzerland for several days during the upcoming weeks.

Survey number two will be an **electronic questionnaire** accessible through a website. Only invited members on the social community network “Facebook”, who meet the criteria of the target group (Swiss women aged between 15 to 24) may take the survey. I will run a targeted ad campaign on “Facebook” in order to get enough participants. A special online survey software will be used, which is very popular at the University of Applied Sciences St. Gallen, Switzerland. I am very familiar with this tool (EFS Survey by Globalpark). In order to attract at least 250 participants (up to 600 is intended) there will be one prize worth approx. CHF 150.00 and two prizes worth approx. CHF 50.00. A random selection of three participants will identify the winners. This survey will collect information on cosmetics usage behaviour, typical expenditure on lipsticks and lip gloss products, the perception of the lipCat™ logo, tag line, key visuals, products, variety of colours, pricing, shipping costs, appraisal of competitors, and packaging, among others.

Both surveys will be in compliance with the Nottingham University Business School Research Ethics standards. The according checklist has already been filled in, annotated, and handed in on June 9th 2010.

Although the research design has been laid out as carefully as possible, due to the limited resources (above all the prizes, respectively compensations for participation) the results of the two surveys will probably not be 100% representative. In order to achieve that it would likely take to conduct a survey with thousands of randomly selected women of the defined target group (across all language

barriers). The two surveys will be limited to German speaking women. Switzerland, with its four official national languages presents a special challenge to every researcher. However, I am convinced that this market research will function as a good indicator for the likelihood of a successful market entrance for lipCat™.

The electronic version has to be much shorter than the paper based one, and the question types will differ, since on the web, multimedia and sophisticated rating methods are possible. Obviously, participants in the web survey will not be able to actually test the product quality itself. Regarding the pricing question, the paper based survey will make use of Van Westendorp's Price Sensitivity Meter, a special form of direct query that measures the willingness to pay.

Part Six: Financial Analysis (Individual Project for Swapnil Deshmukh)

Financing

Business organisations whether small or large require finance to establish, sustain and grow itself in the market. Finance is the core and the backbone of any kind of business across the globe. The organisation develops corporate, marketing and operational strategies to enhance growth and development. However, all these strategies can be implemented and executed in an apt manner only if supported by strong financial strategies. The decisions made and the policies formulated in an organisation require a strong financial base.

The major financial decisions that a firm has to make are what kind of investments is required for the business and how should the firm pay for those investments. A successful financial management can be judged by the increase in the value of the firm, but the conundrum that a firm is faced with is, what could be the accurate measures to do so. The solution for this dilemma is the firm's investment or capital budgeting decision and its financing decision. (Brealey et al, 2008)

General Risk Assessment (Financial And Non – Financial)

Non – Financial Analysis

Non financial analysis refers to the impact caused by factors such as political, economical, social, technological, environmental and legal. It is very imperative that a thorough assessment of all these factors is performed to check the viability of an investment from the non – financial perspective.

This analysis will consider the above mentioned factors with regards to Switzerland, United States and United Kingdom.

Financial Analysis

Financial analysis will be based on different financial factors affecting the cash flow, NPV and the IRR for the proposal. It aims to evaluate the investment proposal by considering and assuming changes in the financial aspects of the project such as price, interest rates, inflation, foreign exchange and taxation policies.

The report will end with a conclusion.

Word Count: 2,688

Appendix

Academic aspects intended to explore and selection of literature

(due to the given word limit, this section had to be moved to the appendix)

Every chapter will integrate related academic topics. Applicable theories, tools, and frameworks imparted during the MBA programme will be discussed and be used; especially those taught in the Entrepreneurship and Finance specialisation as well as in Operations Management, Strategic Management, Marketing, and Venture Capital & Private Equity. The major decisions to be made shall be underpinned by accepted academic knowledge or authoritative market research data. The primary data collection shall further inform decision-making in areas not covered by secondary available sources; such as the perception of the company's logo, tag line, key visuals, product quality, packaging, etc. To make sure that the individual research project and the questionnaires meet academic requirements, a standard work on Business Research Methods will be employed.

Executive Summary

Company Introduction

- ➔ Classification of Small Business Owners vs Entrepreneurs (Carland et al, 1984)
- ➔ Advantages and limitations of family businesses (Hitt & Sirmon, 2003)
- ➔ Entrepreneurial Opportunity Recognition and Exploitation (Stevenson & Gumpert, 2001)
(Shane & Venkataraman, 2000) (Drucker, 1985) (Schumpeter, 1934)

Corporate Strategy

- ➔ Outsourcing for start-ups: implications (Ghausi, 2002)
- ➔ Integrating Strategic Management and Entrepreneurship (Hitt et al, 2001)
- ➔ The Strategy Diamond Framework (Hambrick & Fredrickson, 2001)

Books (selection):

Dobson, P., Starkey, K. & Richards, J. (2004) *Strategic Management: Issues and Cases*, Blackwell.

Marketing Strategy

- ➔ Entrepreneurial Marketing (Stokes, 2000) (Hisrich, 1992)
- ➔ Managing a brand strategically
- ➔ Guerilla Marketing; opportunities and appropriateness
- ➔ Bootstrap Marketing (Lahm, 2007)

Books (selection):

Kapferer, J.N. (2008). *The New Strategic Brand Management*. London: Kogan Page.

Levinson, J.C. (2005). *Guerrilla Marketing for the New Millennium: Lessons from the Father of Guerrilla Marketing*. New York: Morgan James Publishing.

Operations Strategy

- ➔ Business Process Planning (Davenport, 1993)
- ➔ Demand Management (Palmatier, 2003)
- ➔ Process Design (Rhyder, 1997)
- ➔ Planning and Controlling the Supply Chain (Chase et al, 2007)
- ➔ Process Workflow Modelling (Sharp & McDermott, 2009)

Finance

- ➔ Public Policy Support for Entrepreneurship in Switzerland (Global Entrepreneurship Monitor)
- ➔ Financing options for start-ups
- ➔ Forms of exit
- ➔ Classification of Business Angels and Venture Capitalists (Van Osnabrugge, 2000)

Primary Research (Individual Project for Axel Schmidt)

- ➔ Research Design, Research Methods, and Questionnaire Design

Books (selection):

Bell, E. & Bryman, A. (2007). *Business Research Methods*. Oxford: Oxford University Press.

Financial Analysis (Individual Project for Swapnil Deshmukh)

- ➔ Financial Modelling
- ➔ Scenario Analysis
- ➔ Sensitivity Analysis
- ➔ Real Options Theory

Conclusion

Appendix 3: New Outline for Individual Part of Management Project of Axel Schmidt

New Outline for Individual Part of Management Project

Student: Axel Schmidt

Supervisor: Chris Mahon

Title of Individual Project:

**How do electronic retailers' perceived obstacles
to successful E-Commerce differ with regard to
search goods and experience goods?**

A qualitative, interpretive study providing recommendations on the successful
online retailing of Decorative Cosmetics.

Research Style:

- Research at a Distance
- Qualitative, interpretive study

Method:

- Literature review
- 2 semi-structured interviews (one search good case, one experience good case)
- Internet search (for recommendations part)
- A theoretical framework for the qualitative research will be developed

Selection criteria for interviewees:

- The firm must sell tangible goods over the internet – either true search goods or true experience goods.
- The firm must be located in the German speaking part of Switzerland.
- The firm has to be successful in their industry or segment.
- The firm is run respectively has been founded by entrepreneurially minded people.
- The firm exists for at least three years already.

Inference concerning the online selling of decorative cosmetics:

Based on the extensive literature review, the two interviews, and an Internet search, practical recommendations on the online vending of Decorative Cosmetics (a true experience good) will be developed.

Contribution to academic knowledge:

This study will not create new knowledge in the narrower sense; rather it will highlight the (potentially) disparate obstacles to successful E-Commerce with regard to search and experience goods, as being perceived by electronic retailers. Moreover, the study will provide online retailers of Decorative Cosmetics with various, innovative ways of mitigating or even eliminating these obstacles.

Annotation:

This study does not claim to be representative or universally valid with regard to the findings of the interviews. Rather, a thorough literature review of the topic (online retailing of search goods and experience goods) shall be enriched with first-hand perceptions provided by electronic retailers.

Appendix 4: Characteristics of Family Businesses

Resources create and enhance value of the business firm (Barney & Arikan, 2001). Managing and channelling the available resources in an apt and efficient manner are the key factors for a family business to gain competitive advantage in the market. However, it is also imperative that an organised framework should exist in order to achieve the required efficiency. This framework is known as 'Strategic Management' (Sirmon & Hitt, 2003; Sharma et al, 1996). It helps a business to identify and exploit opportunities in the market and also simultaneously to gain and sustain competitive advantage (Sirmon & Hitt, 2003; Hitt et al, 2001, 2002).

Family business firms consist of several unique resources known as 'familiness' of the firm (Habbershon & Williams, 1999). It is a pool of resources created by the interaction of the family and business (Habbershon & Williams, 1999). 'Familiness' is a product of resources such as human capital, social capital, patient capital, survivability capital and governance structure attribute. These resources when managed in an efficient manner can lead to competitive advantage and wealth creation. (Sirmon & Hitt, 2003).

" A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve and/or maintain intra – organisational family – based relatedness" (Sharma et al, 1996, p. 185). The main characteristics of family firms are entrepreneurial spirit, desire for growth and wealth creation. Human capital, social capital, patient capital, survivability capital and governance structure attribute are the resources which are responsible for driving the entrepreneurial spirit.

Human Capital: It refers to the acquired knowledge, skills and capabilities of the entrepreneur that enables him to perform unique and novel actions to gain competitive advantage (Coleman, 1988). The quality and quantity of human capital might be limited in family firms as only family members are employed in such firms. This could lead to sub – optimal employment. Also, family firms might find it difficult to hire qualified managers as such firms offer limited potential for professional growth. (Dunn, 1995; Sirmon & Hitt, 2003). Lack of skilled managers might constrain the wealth creation in a family firm (Sirmon & Hitt, 2003). However, family firms also exhibit certain positive attributes such as fierce commitment, warm, friendly and intimate relationships towards its consumers. Family business firms provide direct exposure to all the members in the family, especially to the children. As a result of this, tacit knowledge is easily passed through generations and thus creates deeper understanding of the requirements of the firm's business. (Lane & Lubatkin, 1998). Such positive attributes of human capital play a significant role in wealth creation in family business.

Social Capital: Social Capital refers to the “sum of the actual and potential resources embedded within, available through and derived from the network” (Nahapiet & Ghosal, 1998, p.243). It entails relationships among individuals or between organisations (Burt, 1997). It affects and influences significant activities of the firms such as interunit and interfirm resource exchange, creation of intellectual capital, interfirm learning, supplier interactions, product innovation and entrepreneurship (Adler & Kwon, 2002). It also provides and helps to develop information, technological knowledge and access to markets (Hitt et al, 2001, 2002). Coleman (1998) states that social capital also influences the creation of human capital in future generations of the family firm. He believes that qualities and attributes inherited by a child are irrelevant if a strong social capital is not present to aid the development of the child. Hence, Social Capital is pivotal in resource management and wealth creation process in a family firm.

Patient Financial Capital: Family business firms have limited access to external financial capital as they refrain from sharing equity with nonfamily members. As a result such firms do not have access to equity or debt markets unlike the non family firms. (Sirmon & Hitt, 2003). However, family firms can develop an efficient structure to manage financial capital as they have longer time horizons and also are not accountable for short term results like the non family firms (Dreux, 1990). Family firms have the desire to perpetuate the business for subsequent generations, this acts as an incentive to manage finances of the firm in an efficient manner (Gallo & Vilaseca, 1996; McConaughy & Phillips, 1999). Such an investment strategy creates generational capital known as Patient Financial Capital (Reynolds, 1992). Such a capital can be invested without the threat of liquidation for a longer duration (Dobrzynski, 1993). Also, patient capital enables the family firms to pursue more creative and innovative strategies (Kang, 2000; Teece, 1992). As such patient financial capital is one of the key factors and a valuable asset for family firms (Sirmon & Hitt, 2003).

Survivability Capital: Survivability Capital refers to the integration of the above mentioned resources (Sirmon & Hitt, 2003). Thus it can be deduced as a pool of personal resources that the family members of a family firm loan, contribute and share for the growth and development of the family business (Haynes et al, 1999; Horton, 1986; Dreux, 1990). Such a pool of resources can be witnessed in a family business because of the duality of the family and business relationships which creates warmth, dedication and commitment of family members. Survivability capital helps the family business to sustain during poor economic conditions or in case of a failure of a new market venture, thus providing a safety net for the family business (Sirmon & Hitt, 2003). Hence, a family business should aim at creating a sustained competitive advantage and enhance wealth creation through proper management of survivability capital (Sirmon & Hitt, 2003).

Governance Structure and Costs: Family business firms are very well structured and well operated due to the absence of agency costs (Jensen & Meckling, 1976). However, altruism in such firms might give rise to agency costs (Lubatkin et al, 2001). Agency costs might also increase in the lifecycle of the firm. However, generally family business firms have mutually shared objectives of wealth creation and maintenance of family relatedness. Hence, most family business firms enjoy low governance costs which in turn help to build competitive advantage in a firm. (Sirmon & Hitt, 2003)

These resources and attributes form the foundation of the family business firms and when managed in an efficient manner can help the firm to reach pinnacle of glory.

Appendix 5: Outsourced Manufacturing

A start – up business does not always have all the available resources with regards to staffing, finance and storage facilities. At such a nascent stage if a start-up business firm refrains from manufacturing it can concentrate more on selling the product and increasing the customer base. The success of a business firm in a competitive environment depends on how effectively a firm manages and reduces fixed costs as well as reduce the time and cost associated with ramping products to volume production. As a result of this many business firms have adopted the concept of 'Outsourced Manufacturing'. It allows the firm to concentrate on other aspects of the business such as product development, marketing, customer relationship management and efficient distribution. Since lipCat is also a start up cosmetics business firm, it has outsourced its production to a private label in United States of America with an aim to concentrate on these aspects. (Ghausi, 2002)

The key to market share and profitability is making the product available in the market as soon as possible as well as in the quantity demanded. The concept of 'Outsourced Manufacturing' facilitates a business firm to be '**FIRST**' in the market. This is imperative for any business as, "the first to market gets the mind share, the first to volume gets the market share and the first to meet demand gets the margin". (Ghausi, 2002, p.25)

Appendix 6: Annotations to SWOT Analysis

STRENGTHS

Extensive management and entrepreneurial Knowledge: One of the co-owners of lipCat Mr. Axel Schmidt holds a degree specialising in marketing from the Bavarian Academy of Marketing (Munich), a BSc in General Management from the University of Applied Science St Gallen and a MBA in Entrepreneurship from the Nottingham University Business School. Thus, the company has a very qualified management.

Storage Space: The proprietors of lipCat will be using their family home for office as well as storage purposes.

Operational Efficiency: The owners of the company will be dedicating their considerable amount of time for the business operations.

Reliable and reputed supplier: The supplier of lipCat's product is a private label supplier based in New York and has been involved in the cosmetics business for over forty years.

Steady Cash Flow: There would be a consistent injection of cash flow from the family savings in order to meet the working capital requirements.

Variety: lipCat will be offering decorative cosmetics in a very large variety of shades.

WEAKNESSES

Limited Resources: Since lipCat is a small size family business, it has limited financial resources. As a result it is not in a position to own a retail outlet for selling the products. Also, due to limited financial resources it cannot engage into large scale advertising.

No Employees: lipCat is completely dependent on the family resources for all its activities, as a result it has not employed any outsider to work for the company. Thus it lacks of a professional help.

OPPORTUNITIES

Internet as a Shopping channel: The significance of internet as a shopping channel has increased substantially over the past few years. lipCat plans to capitalise on this aspect as no other company has done so far.

Cost of shipping: The Swiss postal service offers low shipping low charges. lipCat's products can be shipped at the rate of a letter rather than the rate of a parcel; hence the charges are very low.

Large Potential: The success of the brand 'essence' in the very low price segment and the fact that MNY (sub brand of Maybelline, Jade New York) has recently entered this market depicts the potential that such segment possesses and lipCat plans to exploit it.

Less Variety by Competitors: lipCat considers it main competitor as the brand 'essence'. However, as per the research conducted by owners of lipCat, the quality of the products sold by the brand 'essence' is very poor. Also, it does not offer the large variety of decorative cosmetics and shades that lipCat can offer.

THREATS

One Supplier: lipCat is dependent on only one supplier to acquire its products. Thus the supplier can dictate terms to lipCat and lipCat might not be in a position to negotiate better terms with the private label company.

Channel of Sales: Decorative cosmetics are a typical experience goods; consumer cannot be sure about the quality of the products prior to purchase. Since lipCat will be selling its products only over the internet, it might not be able to attract and build a strong customer base. Also, lipCat plans to target young women aged 16 to 21, however not all the customers in this age groups possess a credit card to purchase the good online.

Existence of bigger brands: Bigger cosmetics brand already have strong ties and alliances with major supermarkets, departmental stores, pharmaceutical stores, hence lipCat might suffer from pre existence of well established brands.

Appendix 7: Description of the Extended Competitors Group



Nivea Beauté, a Beiersdorf brand, has been voted the most trusted cosmetics brand in Reader's Digest Trusted Brand for five years in a row (Euromonitor International Colour Cosmetics Switzerland, 2009, p.2). On average, their lipsticks cost between CHF 14.00 to 16.00 and they offer 4 to 16 shades. The brand personality is being perceived by customers as 'natural beauty'. Their lip products are widely available at department stores and supermarkets. Although Amazon Germany offers some of Nivea's lip products, it is not available online from other sources nor through an own online store. Women under 30 show the highest affinity to the brand. All references can be found in Appendix 12.



The Body Shop sells lipsticks and lip gloss exclusively in their own and franchise stores. Lipsticks typically cost CHF 15.00 and come in 4 to 38 colours. The products cannot be purchased online. The founder, Dame Anita Roddick, occupied a very strong positioning with the brand; it has very high credibility for 'natural beauty', fair trade and sustainability. Very recently, the Swiss supermarket chain Coop has bought The Body Shop Switzerland from L'Oréal (Coop Group, 2010). The brand appeals to young as well as to older women. In 2009, the brand captured 3.1% of brand share (retail value).



Maybelline Jade New York (L'Oréal Group) is the number one cosmetic brand globally (in the mass market) and is available in over 90 countries worldwide (Maybelline, no date). Lipsticks tend to cost between CHF 10.00 to CHF 13.00 and 10 to 31 colours are being offered. Those can be bought from supermarkets, department stores, and some perfumeries. Online they are only being sold by Amazon Germany. The brand stands for 'Model/Celebrity/Hollywood Star' and is especially appealing to women under 30. The brand share in 2009 is 8.5%.



Astor's (Coty Inc.) lipsticks are available at beauty specialist stores and some chemists. Customers typically have to spend CHF 11.00 to 16.00 and can choose from 8 to 22 shades. A small selection of lip products can be ordered from Amazon Germany – there is no online provider in Switzerland for Astor. Its brand share in 2009 was 2.6%. The brand is especially attractive to women aged 30 to 49 and is associated with being a 'self-assured woman'. The typical Astor buyer would probably not be 'compatible' with lipCat's intended rather juvenile brand identity.



The Revlon brand (Revlon Inc.) embodies as well the 'Hollywood Star'. Their lipsticks cost approximately CHF 13.00, currently there are 16 shades, and can be purchased from perfumeries. On the internet, only Amazon Germany offers selected products. The 2009 brand share was 1.2%. Concerning the age of the typical buyer, the same is true as is for Astor (30-49).

Appendix 8: Description of the Direct Competitor Group

Sub-group 1: Non branded / private labels / low cost

Figure 8 shows an analysis of ALDI's private label 'Ombia' and H&M's private label 'byH&M' (also applicable to other white label cosmetics manufacturers). For both companies, decorative cosmetics are secondary product categories. Since lipCat is capable of undercutting their prices, it is likely that some customers can be won from these competitors. Here, customers do not expect celebrity endorsement and the packaging style is rather simple.

Sub-group 2: branded / low cost

In Figure 9, the competitive approaches of Manhattan Cosmetics (Dr. Scheller Cosmetics), Covergirl (Procter & Gamble), and Catrice (cosnova GmbH) are being compared. Manhattan Cosmetics is especially appealing to 12-29 year old women. Their lipstick containers are rather simple and functional; they sell between CHF 6.00 to 9.00 and are available in 6 to 18 nuances. Of importance to lipCat should be that this brand is perceived as 'girl' and celebrity endorsements are very rare (at least in Switzerland). In 2009, they captured a 7.6% brand share. This seems to be an ideal, potentially 'assailable' competitor for lipCat.

Covergirl's typical packaging is a good bit superior to Manhattan's and is priced between CHF 9.00 to 11.00. Only 11 shades are currently on offer. Their TV presence is extremely large. It is especially challenging to lure customers away from this brand, since it is possible to conveniently order their lipsticks online together with your groceries. In addition, they sign up many popular stars as brand ambassadors. However, price sensitive customers could be attracted by lipCat's offerings, since the typical Covergirl buyer is 12-29 years old. Their brand share in 2009 was 8.8%.

Catrice is the second, much younger brand of cosnova GmbH (besides 'essence'). It has been launched in Germany in 2006 and only lately in Switzerland. This brand is aiming at women aged 30 to 50, charging between CHF 5.50 and 6.50, and having 8 to 16 nuances. Cosnova's market share in 2009 was 0.7%. Although the pricing is rather aggressive, the lipstick packaging is particularly pleasant. There is absolutely no intention nor option (retail agreements) for Catrice to sell their products online. Being still a very young cosmetics company, cosnova GmbH has a very strong turnover, is debt free, and is the volume leader in several European countries. They have monthly changing special editions at the POS and claim to be very innovative and trend-setters. From lipCat's point of view, there is good potential to attack Catrice – there is not yet significant brand equity in Switzerland, the choice of shades is pretty small, and customers who wish to buy attractive lipstick

packagings, might tend to 'upgrade' to slightly more expensive, much more well-known brands (e.g. Covergirl, Astor or Yves Rocher's special offers). It might be commendable for lipCat to at least consider offering a second, more sophisticated lipstick container at a later stage in order to be more attractive for the typical Catrice buyer. On the other hand, Catrice's age positioning is not primarily compatible with the one of lipCat.

Sub-group 3: branded / very low cost

In Figure 10, the most important, direct competitors of lipCat are being examined: essence and MNY. The battle between cosnova GmbH and Maybelline Jade New York is remarkable. First, cosnova was highly successful with their brand essence (launched 2001) and then with Catrice (launched 2006) created a slightly higher-class, a bit more expensive brand. Maybe Maybelline Jade New York accepted essence's strong position at the very bottom of the market; however, as they moved to a more upwards position, with Catrice, they had to react. Thus, in June 2010, they directly attacked essence with the sub-brand MNY in the three German speaking countries.

Essence is seen by lipCat management as the main competitor. Here, all the advantages of lipCat can be fully exploited: superior product quality, about fivefold the variety, even lower prices, more flexibility due to tiny organisational structure, and having no minimum purchase quantity obligations per colour. By creating a bit more mature, 'non-girly' brand identity, a potentially larger customer group can be targeted (12 to 29 years). Cosnova GmbH is manufacturing in Poland and Germany – the fact that lipCat products are being made in New York could maybe also be exploited in advertising.

Cosnova's market share (by retail value) was 0.7% in 2009. They offer currently 13 lipstick colours that sell at CHF 3.95. The lipCat management perceives the lipsticks' quality as being poor (see table above) and believes that the brand is only volume leader due to the absence of an alternative. MNY will certainly threat essence's market position concerning all the product categories. In the lipstick segment, lipCat has good chances to lure away customers from essence. The packaging style is rather simple.

MNY is a very young brand and time has to tell how successful they are. Although lipCat can undercut their prices, in terms of colour variety (except in lipsticks) MNY is a very serious opponent. Furthermore, MNY is benefitting from the strong image of the parent brand. In terms of product quality, the management is convinced that lipCat's is superior. The pricing strategy is very similar to essence's; a lip gloss costs CHF 3.95 and is available in 36 nuances. Potentially, lipCat could be

favoured over MNY by women aged between 20 to 29 years, since lipCat is aiming at a bit more grown-up brand identity.

Appendix 9: Strategic Options

Distribution

Basically, we identified eight different types of cosmetics distribution: online, conventional retail (e.g. supermarkets, perfumeries, chemists, etc.), unconventional retail (e.g. filling stations, gyms, night clubs, doctors' waiting rooms, etc.), personal selling (e.g. the Tupper Ware 'home party' concept), franchise concepts, own stores, multi-level-marketing, and vending machines. Briefly, the reasons for dismissing all except the online distribution are as follows. It is very difficult and costly to become a supplier of established retailers in Switzerland (listing fees, prerequisite of ERP solutions, etc.). Unconventional outlets would be possible in general, however, the margin is too tiny to satisfy both lipCat and the partner; furthermore, some of these would have a negative influence on the perceived quality (e.g. filling stations). In addition, lipCat would not be able to supply the accumulating order quantities. Personal selling in theory is great – you immediately build a strong relationship to your customers. However, since the profit margin is so small, this cannot be practised profitably. A franchise concept is very interesting, since the franchisee bears as well a lot of the expansion costs and risks. In order to attract franchisees, a business must already have a proven track record and the legal issues are very expensive. Setting up own stores is impossible without external financing. Multi-level-marketing works very well in the field of cosmetics, however, the problem of the small margin remains and it bears a certain risk of giving away control (you end up with a multitude of self-employed 'agents'). Though, vending machines would perfectly fit with the young target segment and could be installed at their favourite places (e.g. night clubs, bars), lipCat lacks the substantial investment sum (hardware, maintenance, site rentals, etc.) to create such a network. Obviously, lipCat's only viable distribution channel is the internet.

Pricing Strategy

As discussed earlier, a middle or premium price strategy is very unlikely to succeed given the few resources of lipCat. Hence, the market will be entered from the low-end.

Advertising

The classic mass media (TV, print media, outdoor advertising, nationwide radio) is inaccessible for lipCat in the beginning. Consequently, lipCat will perform social networks marketing, leaflet campaigns, nightclub promotions, and sampling campaigns.

Product packaging

The US supplier offers a wide variety of packaging and design services. Unfortunately, the minimum order quantity for such a customised product is 144 units. It is much more cost efficient for lipCat to do the labelling in-house. The section on Operations Strategy will provide information in more detail.

Staging

It is very tempting to offer a complete product family right from the start. But this contradicts the principle of concentrating ones resources. Accordingly, lipCat will initially introduce only lipsticks in 75 shades. Provided that there is sufficient demand, in a second phase other lip products will be offered, and eventually in a third phase all main decorative cosmetics goods.

Small businesses should not underestimate the implications and challenges of shipping goods internationally. Since Switzerland is not a member of the EU, customs handling remains time-consuming and incurs additional costs for the customer. It has been decided that Germany, Austria, and then other neighbouring countries will be served later, depending on the success in Switzerland. It would be logical to establish a distribution centre in Germany, since it is a EU member state and there are no customs duties on imported cosmetics from the US (TARIC, 2010).

Foreign Market Entry Strategy

Onkvisit & Shaw (2004) mention various forms of entering foreign markets: exporting, licensing, joint ventures, acquisitions or building manufacturing facilities, among others (p.243). They point out that the most suitable entry mode depends on the product type, the specific country or region, regulations, and many other factors (p.263). Since it has been decided that all business activities will be limited to the Swiss market initially, it seems inappropriate to decide now about the most promising form of entry. First, the business model has to prove that it works, then, under incorporating the prevailing environment, the various options have to be compared with each other.

Enabling Future Growth

Future growth could be achieved by various methods. An internationalisation would certainly increase the size of the target segment. A line extension (additional lipstick collections) will be made as soon as enough market demand becomes obvious. By introducing a bit more expensive lipsticks, existing buyers might be willing to 'upgrade' – this so called trading up could increase lipCat's profit margin. A range extension (introduction of other decorative cosmetics items) would make lipCat more attractive to a wider customer base; hence, the share of wallet and the turnover should increase.

A diversification into related (e.g. nurturing cosmetics) or even completely unrelated (e.g. jewellery) product categories (possibly under a new brand name) or a brand extension, i.e. capitalising on the goodwill associated with the brand name by introducing unrelated new products, bears the risk of diluting the brand (Loken & Roedder John, 1993, p.71). Provided that the business turns out to be successful, then a related diversification could comprise cosmetics accessories, nurturing cosmetics or fragrances; unrelated diversification could mean offering items such as jewellery, clothing or hand bags. Of course, this is purely hypothetical at this stage. Marketing gift sets to men so that they have a nice, convenient present for their partners is an interesting, cost-effective idea.

Appendix 10: Bootstrap Marketing versus Guerrilla Marketing

Bootstrap Marketing refers to the practice of starting a business with very limited capital in conjunction with creative means to achieve one's goals. An important characteristic of bootstrap marketing is an underlying ingeniousness – it is not simply using low-cost doorknob hangers or relying on business card advertising. Bootstrap marketers are good in leveraging other people's resources or assets. (Lahm, 2007)

The below mentioned examples explain the possibilities and benefits of such an approach towards marketing.

Lissa D'Aquanni started a gourmet chocolate business in Albany, New York in 1998. Since then, in spite of being financially facing financial constraints she has regularly developed new and creative ways to expand her business. For instance, she taught two event planners to make chocolates – in exchange, they offered assistance during peak periods. When molds and a temperer were required for the Christmas sales, she adopted a meticulous strategy from a magazine. ; to raise capital, she sold discounted gift certificates. Customers could receive USD 25 in free chocolate for every USD 100 gift purchase. In only two weeks, the necessary equipment could easily be purchased with the earned USD 5,000. (Detamore-Rodman, 2003)

In order to keep operating costs as low as possible, Western Pacific Airlines sells huge advertising space on its airplanes. Each plane earns USD 800,000 a year. (Barboza, 1995)

What becomes obvious now, is that successful bootstrap marketers make use of bartering, partnering, and negotiating. For example, many local newspapers accept offering businesses free advertising space in return for a commission of sales. While many entrepreneurs simply have no access to traditional sources of capital, researchers have discovered that sometimes, it is a conscious choice to perform bootstrap marketing. (Lahm, 2007) In fact, Firestone (2007) states that entrepreneurs often use very unconventional methods of communicating their messages; being chronically undercapitalised can force a business to become superior to the competition – it's a matter of common knowledge that necessity is the mother of invention.

Bootstrap Marketing should not be equated with Guerilla Marketing, a term made famous by Jay Conrad Levinson, even though there are some similarities. Both aim to achieve maximum effect with as little money as possible. However, Guerilla Marketing, as the name implies, focuses very much on military metaphors and tactics – the 'enemy' shall be 'out-flanked' or 'outmaneuvered'. On the contrary, bootstrap marketing is open to co-operations, for instance strategic partnerships with

suppliers. Bootstrap marketing and Guerilla Marketing both strive to replace capital with ingenuity and brains, however, the former abandons the military metaphors. (Lahm, 2007)

According to Levinson et al (2007), “the soul and spirit of Guerrilla Marketing – is small business: companies with big dreams but tiny budgets” (p.5). They add that being small makes a firm agile and allows it to use a multitude of marketing tools – they mention 200.

Margolis et al (2008), describe Guerilla Marketing as reaching existing and potential in an engaging, unexpected way. With the help of creativity and various modern tools, a “genuine connection” with the customers shall be achieved (p.11).

“In October of 1994, three student filmmakers disappeared in the woods near Burkittsville, Maryland, while shooting a documentary. A year later, their footage was found” – this was the tagline of the film ‘The Blair Witch Project’. With a tiny budget of USD 50,000 two young film students successfully made the public believe that this fictitious event had really happened. By also exploiting the benefits of Viral Marketing, the movie grossed USD 250m worldwide. (Creativeguerrillamarketing.com, 2010)

Another great example of clever guerrilla marketing is Papa John’s Pizza of Peru, shown in Figure 26.



Figure 26: Papa John’s Pizza Guerilla Marketing Campaign. Source: adverbox.com, no date.

Customers who open the door to the ‘virtual’ pizza delivery guy will certainly be very surprised and smile in view of this unconventional approach – and hopefully, they become hungry, too.

lipCat sees a certain potential in applying Bootstrap Marketing methods; for instance, a co-operation with the Swiss Postal Service, which is acting also as a bank and electronic payment provider, could yield mutual benefits. In return for lipCat exclusively offering their payment option (including a new cell phone payment solution), they might be willing to distribute leaflets in their outlets or fit those with a carton display that offers lipstick testers.

Guerilla Marketing is very tempting to start-ups. The rather young age of the target segment might fit very well with this approach; however, it is important to not to overdo things, since lipCat targets women and beauty products, to a high degree, is about credibility and integrity. To underpin the extrovert and unconventional brand identity which lipCat has chosen to occupy, infrequently Guerilla Marketing activities could be performed in night club environments.

Appendix 11: Introduction to Market Segmentation

Weinstein (2004) assents Kapferer by stating that mass marketing has become a 'distant memory' today (p.3). In addition, he claims that for contemporary businesses succeeding in the field of segmentation is crucial in order to survive. Because the modern consumer has a myriad of options, it is no longer enough to simply have good quality products or services. It is imperative that companies target specific markets and niches and satisfy their unique needs and wants. The importance of segmentation-based marketing cannot be overestimated; Weinstein calls it the "essence of sound business strategy and value creation" (p.3). He further points out that segmentation is a necessity because of two things; firstly, not everyone is a potential customer for every good, and secondly, one's product mix needs to be as efficient as possible.

In general, a firm can choose between three main market coverage strategies: servicing the entire market with one product (*undifferentiated marketing*), targeting several segments with separate offers for each (*differentiated marketing*) or aiming at a single, very specific niche (*concentrated marketing*). The latter is especially advisable if the firm's financial resources are very much limited. (Kotler et al, 2009 ,p.206). The most extreme form of differentiated marketing (so called one-to-one marketing or "atomization") is when one targeted segment equals one individual (Weinstein, 2004, p.10). Here, every customer can tailor the product or service to their specific needs.

There are many ways to conduct market segmentation. Kapferer (2008) mentions socio-demographic, psychographic, benefit, attitude, channel, occasion, and price segmentation. Weinstein (2004) adds the principles of adopter categories segmentation (e.g. early adopters, laggards, etc.) and product usage segmentation (behaviour).

Kotler et al (2009) explains the concept of targeted marketing as a three-step process. First, segment the market into smaller homogeneous clusters of buyers who share distinct requirements, behaviours or characteristics. Second, evaluate the attractiveness of each segment and decide which one or ones is most promising to enter. Third, define the competitive positioning for your product and create a specific marketing mix.

Appendix 12: Description of consumer segments in the decorative cosmetics market

The *Prestige Orientated Luxury Shopper* typically is middle-aged, with high income and according prestige thinking. When it comes to cosmetics, she picks expensive products. Simultaneously, she appreciates natural ingredients. For this type, it is very important to always look good, hence the price is secondary. Furthermore, she wants to commune her societal status. Regarding shopping, she is hedonistic and is allowing herself something. She enjoys shopping and is geared to branded quality. Since this type commemorates cosmetics, multifunctionality of products is not that important. The *Prestige Orientated Luxury Shopper* often is one step ahead of the other types – in many areas she is a role model. For her, advertisement represents a good opportunity to get to know new products. She is interested in watching advertisements. She strives for classic beauty and lives an active and health-conscious life. (Burda Community Network, 2006, pp.10-24)(Roland Berger Strategy Consultants, 2008, p.5)

The *Price-Conscious Minimalists* represent the oldest cosmetics buyer group. They have fewer financial resources. The price is the dominant factor regarding the purchase decision of cosmetics. For this type, the outward appearance is not important. Natural ingredients or special applications attract little interest – cosmetics shall only maintain the status quo. When it comes to consumption, they behave rational, hence they purchase only as needed – they regard shopping as a necessity. Multifunctional products that help saving time are occasionally of interest. They are not very fashion-forward and they preferably use low priced products that offer simple effect. Members of this segment do not approach other people so gladly. They are not interested in advertisement. Since their interest in cosmetics is low, this group does not need role models or suggestions from media or advertisement. (Burda Community Network, 2006, pp.10-24)

The *Flexible Beauty Novice* is higher-than-average juvenescent, by trend has available a higher income, and many members of that segment still live with their parents. This type places an increased emphasis on its outward appearance. Natural ingredients are not important to this group – the objective is that the cosmetics give the desired effect. This segment likes to experiment with decorative cosmetics and typically spends more money on those products than on nurturing cosmetics. Comparatively, they enjoy shopping and they do buy new products. The *Flexible Beauty Novice* is open to buying from discount shops. Furthermore, they appreciate multifunctional products – they relate them to nurture and decoration. High-tech cosmetics goes a bit too far for this cluster – they are not willing to accept the additional effort linked to such products. This type is being inspired by advertisements; especially press or magazine adverts are of interest to them. They like

modelling themselves on role models. Members of this category are spontaneous, adventurous, and they like to set the trend. Mental and physical fitness are of importance to them. They are no loners; they love to spend their spare time with friends and family. Their own image is very important; however, they do not set value on exclusiveness or uniqueness but on classic beauty and timelessness. Tradition, time-tested products, and quality standards such as longevity or effectiveness are not critical to the purchase decision. For them, value-for-money is of utmost importance – they want as much as possible in return for their money. Protection of the environment and solidarity are topics of minor prominence to them. (Burda Community Network, 2006, pp.10-24) (Roland Berger Strategy Consultants, 2008, p.6)

The *Trend-Setters Open To Experiments* are a relatively young segment with partly above average income. They are very much open to innovations in the field of cosmetics and also not reluctant to natural ingredients. Members of this group want to be beautiful, they are unconventional, and they are especially extrovert. In order to achieve this they are prepared to spend a bit more money. A “well-groomed” appearance in the traditional meaning does not tempt them. When it comes to shopping they behave hedonistically. They are pioneers in many areas and open to advertisements, which helps them to get an overview of the product range. This cluster is responsive to products that instantly alter their appearance such as lipsticks with “boost effect”. More than a third of this category would even consider aesthetic surgery. They want to attract attention – understatement is a foreign word to them. They constantly strive for variety, adventure, and entertainment. Stress relief or cosy get-together with friends is not of relevance to them. Products that appeal to them must have something special and must not be mass-produced goods. Quality criteria, advising, and the price fade into the background; the main point is that the product grants them a maximum of efficiency and convenience. Social commitment and high ethical standards are of importance, in contrast to environmentalism. (Burda Community Network, 2006, pp.10-24) (Roland Berger Strategy Consultants, 2008, p.7)

The *Nature-Conscious Purist* is middle-aged and lives in well-funded circumstances but not in luxurious ones. A pleasing appearance and a healthy skin are important to her inner wellbeing. To achieve this she is especially trusting natural cosmetics. While shopping, she is not primarily looking at the price or the novelty value – the well-tried, familiar, and tested products stand high with her. Admittedly, there is a well-defined limit regarding the price she is willing to accept. With regard to shopping she has clear ideas and requirements. A shopping trip is not an adventure for her but well-planned. Natural cosmetics is of utmost importance to her and in those kind of products she trusts. High-tech cosmetics are being seen as “unnatural” and dubious. She is steady in her requirements

and opinions. Advertisement is a source of information to her. (Burda Community Network, 2006, pp.10-24)

Appendix 13: Characteristics of the female under-thirties

Teens (*here*: 15 to 19 years old)

Although teens typically have very low levels of disposable income (often from apprenticeships or part-time jobs), they are a relatively powerful consumer segment. Some teenagers also receive allowances from their parents. It is important to highlight that this age group often tends to dictate and spread new trends in many areas. Furthermore, they are very savvy in regard to technology and the internet, from where they often glean global trends. Besides music and other cultural factors, brand image is of particular importance to teenagers. Members of that group tend to spend significant amounts of money on mobile phones and related services, clothing, footwear, and computer games.

(Euromonitor International, Consumer Lifestyles – Switzerland, 2010, pp.15-16.)

Figure 27 depicts the main areas of interest in the lives of contemporary teenagers.

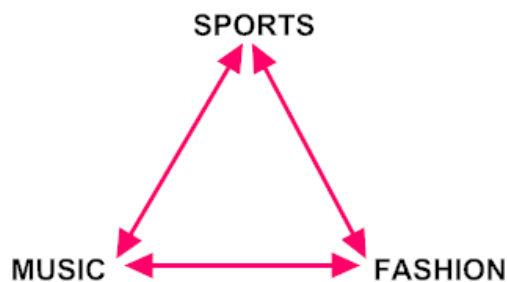


Figure 27: 'Reference Worlds' of teenagers. Source: own depiction based on Grey Strategic Planning, 'Teens 2000', 2000, p.30.

It is impossible to classify **the** typical teenager – there are too many fragmentions or stylistic movements (Grey Strategic Planning, 'Teens 2000', 2000, p.31).

Figure 28 shows what is relevant to teenagers in more detail.

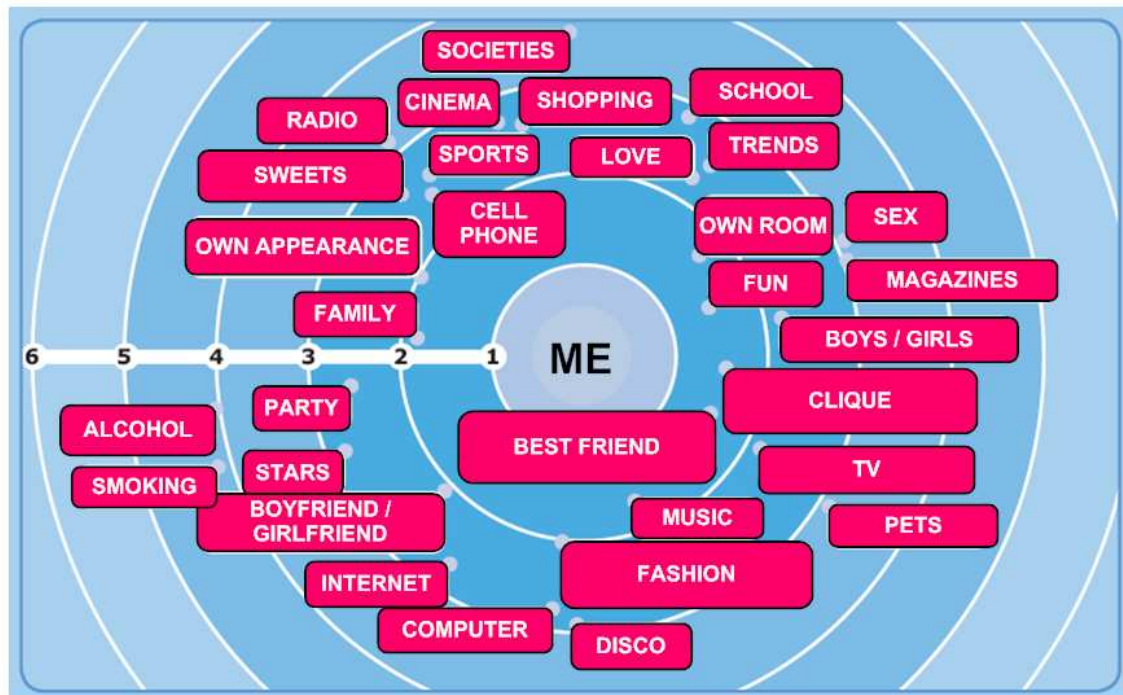


Figure 28: Things that are relevant to teenagers. Source: adapted from Bauer Media, 'BRAVO Faktor Jugend 6', 2002, p.11.

It is obvious that the best friend, the clique, the opposite sex, fun, love, mobile phones, the family, and music and fashion are amongst the most important issues in the life of a contemporary teenager.

Figure 29 indicates how important some product categories are to teenagers.



Figure 29: Product categories of interest to teenagers. Source: adapted from Bauer Media, 'BRAVO Faktor Jugend 6', 2002, p.26.

Behind fashion in general, shoes, and CDs, make-up is very relevant to female teenagers. The cell phone is of a bit more importance than are stars to them.

Figure 30 points out the female teenagers' attitude towards make-up.

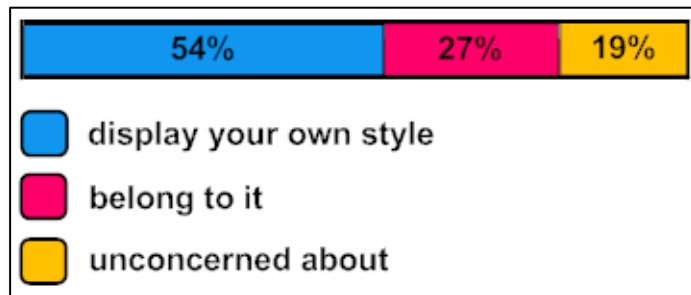


Figure 30: Teenagers' attitude towards make-up. Source: adapted from Bauer Media, 'BRAVO Faktor Jugend 6', 2002, p.28.

More than half of the teenage women try to express an individual style with the help of cosmetics. More than every fourth teenager is using respectively buying cosmetics simply to belong to a certain group (peer pressure). Roughly every fifth is unconcerned about the outward implication of their make-up usage.

51.5% of the teenage women are wearing make-up every day; in the segment 20 to 29 years, only 48.1% do so. And only 39.4% of women aged between 30 and 39 use make-up on a daily basis. (Bauer Media, Beauty Guide 2008, 2008, p.9)

The following statements reveal the teenagers' motives for choosing a brand. 'Very important' or 'important' is for teenagers that a brand respectively a product...

- ...is particularly good-looking (94%)
- ...offers good product features (90%)
- ...offers good value for money (89%)
- ...demonstrates an individual style (81%)
- ...is 'in' or trendy (79%)
- ...is also being used by their friends (68%)
- ...is suitable to show off a bit (66%).

(Bauer Media, BRAVO Faktor Märkte Kosmetik & Körperpflege, 2004, p.15)

44% of the 13 to 15-years old teenagers put on lipstick or lip gloss several times a week or more frequently; for 64% of the 16 to 19-years old women this is true (Bauer Media, BRAVO Faktor Märkte Kosmetik & Körperpflege, 2004, p.16).

In day-to-day life, teenage women typically spend 35 minutes per day on beauty care and styling and use 14.1 products. Prior to going out and on the weekend, the invested time rises to 50 minutes and

14.6 products are being applied. (Bauer Media, BRAVO Faktor Märkte Kosmetik & Körperpflege, 2004, p.22).

Insightful is also the teenagers' attitude towards branded items and advertisement within the age sub-segments as Figure 31 shows.

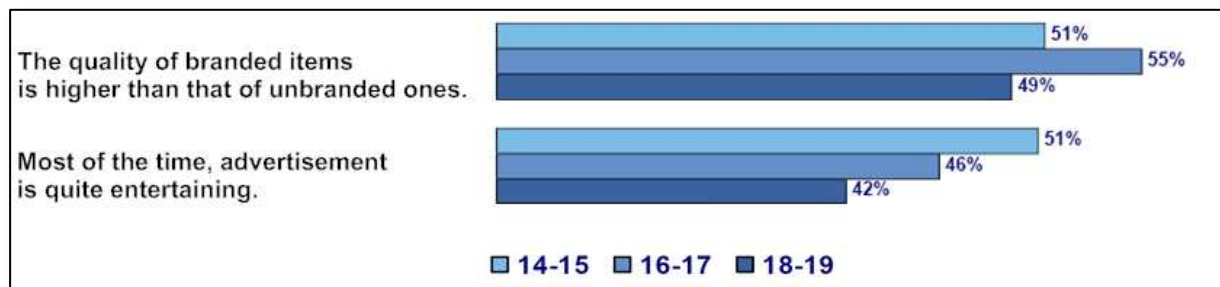


Figure 31: Teenagers' attitude towards branded items and advertisement. Source: adapted from Bauer Media Faktor Märkte Kosmetik & Körperpflege, 2004, p.37.

Throughout the age segments, roughly half of the teenagers believe that branded items offer a quality superior to non branded items. The older the teenagers get the more sceptical they become as regards advertisement.

Whereas only about 30% of the youngsters aged 14 to 16 buy products online or take part in online auctions, already 47% of the 17 to 19-year olds do so (Bauer Media Generation Internet, 2005, p.13).

Students (here: 20 to 30)

The share of women among Swiss students accounts for 49% in 2005. In Switzerland, the average age when beginning a study is 23.4 years – at universities of applied sciences, this figure amounts to 25.0 years. (Swiss Federal Statistical Office, Hochschullandschaft Schweiz, 2008, pp.15-17.)

In 2009, a total of 196,616 students were studying at Swiss universities and universities of applied sciences. After applying the female share of 49%, there are approximately 96,341 women studying. (Swiss Federal Statistical Office, 2010)

Most students have little if any disposable income. Although some students have part-time jobs that cover small bills, most of them are supported by their parents. Still, this segment can be considered a comparably strong consumer group, which is able to influence societal tastes and trends. Similar to teenagers, they are technologically savvy and tend to own up-to-date mobile phones and laptop

computers. Besides going to bars and concerts, they also enjoy listening to and purchasing of music. Due to their fast-paced lives they prefer products that offer convenience and the potential to save time. Furthermore, they aim to remain free and flexible. (Euromonitor International, Consumer Lifestyles – Switzerland, 2010, p.16.)

People in Their Twenties (20-29 years old)

Compared to older population segments, this group earns less money. On the other hand, they very often made fewer commitments to mortgages or offspring. The majority of the people in their late twenties are no longer supported by their families. Interestingly, many exponents of this cluster live their lives day-to-day without focusing too much on their future. Their consumption aims often at instant satisfaction. They often share flats with several other young people in order to lower their living costs. Furthermore, they are a major target market for products such as TVs, mobile phones, and video games. They are very comfortable purchasing goods online.

(Euromonitor International, Consumer Lifestyles – Switzerland, 2010, p.16.)

In 2008, the ratio (retail value in percentage) between premium cosmetics and mass cosmetics was 24.2% to 75.6% (Euromonitor Colour Cosmetics Switzerland, 2009, p.4).

What is the motivation for using cosmetics for women aged 20 or older? Figure 32 gives some indication.

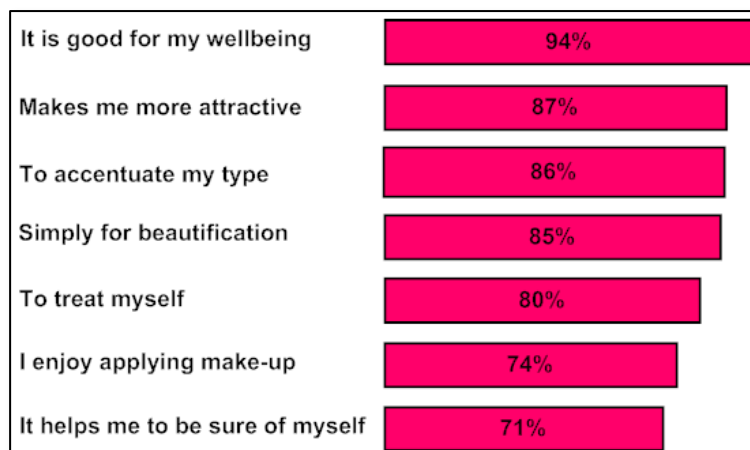


Figure 32: Motivation for using make-up, answered by women aged 20 or older. Source: Seven One Media, Märkte im Visier – Dekorative Kosmetik, 2009, p.8.

For women in their twenties it is very important to be trendy, to look good, to have enough money, to experience a lot, to travel a lot, to have freedom and fun, to have a partner and good friends, and to climb the social ladder (Bauer Media TrendMonitor Female Lifestyle, 2009, p.21).

Celebrities that are most likely the fashion and style role models of this age group are Scarlett Johansson, Katy Perry, Beyoncé or Rihanna, among others (Bauer Media TrendMonitor Female Lifestyle, 2009, p.42).

Also referred to as the 'Generation Y', this group is fashion-conscious and status-aware. They are less rebellious than previous generations. In addition, this is the most diverse generation ever – in terms of tolerance, ethnic background, and sense of community. They enjoy communicating with their friends via social networking sites and are active 'word of mouthers'. It is a fickle consumer group; brands frequently go in and out of fashion. (Euromonitor International, Marketing to the Young Ones, 2007, p.1-2)

While there are some perceived barriers to buying lipsticks online (see primary market research in Appendix 20) experts predict a strong growth for the distribution of cosmetics over the internet. Online stores seem to have established themselves by now. For instance, from 2003 to 2005, in Germany the number of online cosmetics buyers has risen by 28 per cent to 2.3 million – for comparison, in the same year 3.7 million people bought railway tickets online. (Burda Community Network, 2006, p.5)

Appendix 14: Introduction to Brand Identity and the 'Brand Wheel'

Kapferer (2008) admonishes that brand image should not be mistaken with brand identity; brand image is on the receiver's side, brand identity is on the sender's side. The brand identity is the meaning, aim and self-image as the company wants the brand to be – the brand image is the result and interpretation thereof on the part of the receivers such as customers or the general public (p. 174). The influence of the competition and decoding of messages in an unexpected or unintended way can evoke differences between brand image and brand identity. It is important to remind oneself that customers use brands to build their own identity.

A very useful tool that helps to create and define a brand is the 'Brand Wheel' which has been developed by Bates USA. This framework distinguishes functional and emotional elements of a brand. The brand essence is the enduring core of the brand. Kapferer (2008) states that the brand essence, being a summary of an identity's richness, makes it easier to convey to the consumers what the brand is all about; however, this simplification bears the risk that different cultures comprehend the meaning of the same words differently. Facts and symbols stand for the visual attributes of the brand. Furthermore, consumer benefits are reflected by the statement 'What the product does for me'. 'How the brand makes me feel' refers to the brand's value. The brand personality describes the brand as if it were a person. (Bates USA, 2003) (Cameron & Green, 2004)

Appendix 15: lipCat's Copy Strategy

A company's advertising copy strategy is the groundwork for all its internal and external communication. The goal is to develop a communications concept which remains valid over time, while providing enough room for creative variations. (Busch et al, 2007)

Fuchs & Unger (2007) recommend that a copy strategy consists of four elements: 'consumer benefits', 'reason why', 'tonality', and 'target group'.

3.7.1.1. Consumer Benefits and Reason Why

Table 2 summarises benefits that lipCat consumers can derive.

Table 4: lipCat's consumer benefits and reason why. Source: own depiction.

Consumer Benefit	Reason Why
Makes you more attractive, special, and irresistible	lipCat beauty products correct skin blemishes, give intense colours, sparkle, and gloss while nurturing and moisturising skin and lips
Lets you express your individual self-conception and experiment with looks	huge selection of shades guarantees that every skin type finds the perfectly matching colour
Save money on decorative cosmetics without compromising on quality	<ul style="list-style-type: none">- no-frills packaging- no celebrity endorsement- lean organisational structure- lipCat focuses on social network advertising and word-of-mouth- lipCat focuses primarily on ingredients and only secondarily on the packaging- made in New York- complies with all international regulations

3.7.1.2. Tonality

Kelley & Jugenheimer (2006) point out that the brand personality and the advertising tonality have to be in sync. lipCat's brand communication shall be characterised by a tonality that is casual, juvenile, colourful, feminine, positive, uninhibited, cosmopolitan, sometimes humorous and a bit cheeky. Whenever possible, the colours pink, white, and black shall be used as a key visual.

3.7.1.3. Target Group

- Young women (teenagers, college students, twens)
- Aged 15 to 29
- Resident in Switzerland
- Keen to try out new decorative cosmetics products
- Like to set the trend
- Open to respectively inspired by advertising
- Spontaneous, rather extrovert
- They strive for variety

Appendix 16: Explanation of Marketing Roadmap

For **leaflet campaigns** in city centres, it is compulsory to get an approval which costs CHF 169.00 per day. 2000 leaflets will be distributed per event. Except for the month of June there will be weekly **leaflet campaigns** aiming at letterboxes; 2000 leaflets will be distributed per campaign. One leaflet can be purchased at the price of CHF 0.01.

Sampling activities will be carried out during 9 month of the year. In December, there will be an extra large campaign. The costs for handing over one lipstick and one leaflet are CHF 2.10.

The advertising on our **hair-straightening vending machines** will take place throughout the year. Except for June, every day CHF 10.00 will be invested in **Facebook** advertisements.

With the exception of June, 10,000 electronic ads will be displayed on the beauty section of '**20 Minutes online**'.

In every month except June, one **guerrilla marketing** campaign will be done in Swiss night clubs. From January to April, each month 3 **press kits** will be sent to beauty journalists and editorial offices in Switzerland.

In March and August, there will be one **print advert** (1/8 page) in the free newspaper '20 Minutes' in Berne. In December, there will be one print ad (1/8 page) each in the city of Basle, Lucerne, and St Gallen.

In every shipping carton, printed matter to support **word-of-mouth** recommendation will be included; the costs for this are already included in the minimum profit calculation per order.

In June, lipCat will organise a **night club event** in co-operation with a popular location and a co-sponsor (e.g. a beverage company). The night's motto will be 'The Portuguese Night'. In the run-up to this party, leaflets and posters in Portuguese will promote the event. This is a good opportunity for lipCat to acquire customers in this small niche. The CHF 5,000 will be spent on free entry, a welcome drink, a DJ, large posters on the site, and product samples. Radio, TV, and cinema advertising will expectedly not be done in the first year.

Appendix 17: Competitor Analyses Charts

References for „Positioning Age“ & „Brand personality“: (Bauer Media, Beauty Guide 2008)

References for Brand Share: (Euromonitor, 2009)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	Because you're worth it.	Color Riche / Color Riche Serum Anti-Age / Studio Secrets	Glam Shine / Glam Shine 6H
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 20 to 27	CHF 21.90	12 to 36	7
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
11.7% (Retail Value)	11.9% (Retail Value)	12.0% (Retail Value)	12.1% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Partner Websites) - Retail Stores	12-29 yrs	rather expensive	Celebrity / Model / Hollywood Star
Parent Company:	L'Oréal Group		
References:	see Appendix		
Typical Illustration			

<http://www.leshop.ch/leshop/Main.do/direct/uk/Supermarket/-17888/-22944> (28th June 2010)
http://www.loreal-paris.de/_de/_de/beauty-filter/index.aspx?category=Cosmetics_Lips&topics= (28th June 2010)
http://www.amazon.de/LOR%C3%89AL-Lippenstift-Color-Riche-Serum/dp/B002NPC0MG/ref=sr_1_1?ie=UTF8&s=beauty&qid=1277721293&sr=8-1 (28th June 2010)
http://www.douglas.de/douglas/Make-up/Lippen/Lippenstifte/L%C2%B4Or%C3%A9al-Paris-Studio-Secrets-Professional-Lipstick_productbrand_3000031396.html (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
COVERGIRL	-	Continuous Color	Outlast Double Shine
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 9 to 11	CHF 8 to 16	11	10
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
8.6% (Retail Value)	8.8% (Retail Value)	8.8% (Retail Value)	8.8% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Migros Supermarket) - Supermarket (Migros)	12-29 yrs	rather low	Celebrity
Parent Company:	Procter & Gamble		
References:	see Appendix		
Typical Illustration			

<http://www.deurocos.ch/index.php?page=178> (28th June 2010)

<http://www.leshop.ch/leshop/Main.do/direct/de/Willkommen&gclid=CIODjZbwwqICFdpo4wodlhGY4w> (28th June 2010)

<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (29th June 2010)

<http://www.kgeld.ch/tests/testsieger/1038806/Lippenstifte> (29th June 2010)

<http://issuu.com/m-magazin/docs/migros-magazin-15-2009-d-os> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	Maybe she's born with it. Maybe it's Maybelline.	Moisture Extreme / Color Sensational / Watershine	Superstay Gloss / Color Sensational Cream Gloss / Watershine Gloss
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 10 to 13	CHF 9.50 to 19	10 to 31	6 to 13
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
8.3% (Retail Value)	8.4% (Retail Value)	8.5% (Retail Value)	8.5% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Retail Stores	12-29 yrs	rather low	Celebrity / Model / Hollywood Star
Parent Company:	L'Oréal Group		
References:	see Appendix		
Typical Illustration			

<http://www.maybelline.ch/> (28th June 2010)

http://www.amazon.de/Maybelline-Moisture-Extreme-Color-Lippenstifte/dp/B002KRWFY0/ref=sr_1_8?ie=UTF8&s=beauty&qid=1277747282&sr=1-8 (28th June 2010)



<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (28th June 2010)

[http://www.world4fun.ch/Parfuem-84231031-B002NPBH2K-](http://www.world4fun.ch/Parfuem-84231031-B002NPBH2K-Maybelline_Lippenstift_Color_Sensational_605_precious_beige.html)

[Maybelline_Lippenstift_Color_Sensational_605_precious_beige.html](http://www.world4fun.ch/Parfuem-84231031-B002NPBH2K-Maybelline_Lippenstift_Color_Sensational_605_precious_beige.html) (28th June 2010)

[http://www.amazon.de/Maybelline-Jade-Lippenstift-Superstay-](http://www.amazon.de/Maybelline-Jade-Lippenstift-Superstay-Baume/dp/B001ET69YW/ref=sr_1_3?ie=UTF8&m=A3JWKAKR8XB7XF&s=beauty&qid=1278087333&sr=1-3)

[Baume/dp/B001ET69YW/ref=sr_1_3?ie=UTF8&m=A3JWKAKR8XB7XF&s=beauty&qid=1278087333&sr=1-3](http://www.amazon.de/Maybelline-Jade-Lippenstift-Superstay-Baume/dp/B001ET69YW/ref=sr_1_3?ie=UTF8&m=A3JWKAKR8XB7XF&s=beauty&qid=1278087333&sr=1-3) (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	-	Perfect Creamy & Care / X-Treme Last & Shine / X-Treme Last & Intense / Intense Moisture & Gloss	Water Flash / High Shine Lip Gloss / Long Lasting Gloss Glide
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 6 to 9	CHF 6 to 10	6 to 18	6 to 8
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
7.3% (Retail Value)	7.5% (Retail Value)	7.7% (Retail Value)	7.6% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Retail Stores	12-29 yrs	rather low	Girl
Parent Company:	Dr. Scheller Cosmetics AG (Kalina Concern OAO)		
References:	see Appendix		
Typical Illustration			

<http://www.manhattan-cosmetics.com/> (28th June 2010)

http://www.amazon.de/Manhattan-35508-Lippenstift-XTreme-30middle/dp/B00127E1Z0/ref=sr_1_60?ie=UTF8&s=beauty&qid=1277747766&sr=1-60 (28th June 2010)

(28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
CHANEL	-	Rouge Coco / Rouge Allure / Aqualumière	Gloss Fluo / Aqualumière Gloss / Lèvres Scintillantes
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 40 to 45	CHF 38	26 to 57	2 to 27
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
3.3% (Retail Value)	3.4% (Retail Value)	3.4% (Retail Value)	3.5% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (few specialised shops) - Retail Stores	30-49 yrs	premium	Diva / Hollywood Star
Parent Company:	Chanel SA		
References:	see Appendix		
Typical Illustration			

<http://www.oswaldparfum.ch/products/Chanel/Make-up/Lippen/Chanel-Aqualumiere.html> (28th June 2010)
<http://www.chanel.com/fb/um.php?la=de&lo=de&re=chanelcom&ws-action=http://um.chanel.com/branding.php?chsetdefgnav%3d7%26chsetdefgnavdiv%3d15%26landing%3dm%26branding%3dlpr%26la%3dde%26lo%3dde%26re%3dchanelcom~~~G!056C4C7AAC13!5kW0r37g%252brwd%252bKllvg%3d%3d~general~~~@http://syndicator.live.chanel.com/chanel/chanel-um> (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
THE BODY SHOP.	-	Colourglide Lip Colour / Delipscious	Love Gloss
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 15	CHF 15	9 to 38	9
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
3.1% (Retail Value)	3.1% (Retail Value)	3.1% (Retail Value)	3.1% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Franchise Stores	12-49 yrs	medium	Natural Beauty
Parent Company:	L'Oréal Group (in Switzerland: COOP collective)		
References:	see Appendix		
Typical Illustration			



http://www.ciao.de/The_Body_Shop_Colourglide_Lip_Colour__8246037 (28th June 2010)
<http://www.beautyspion.de/the-body-shop-delipscious> (28th June 2010)
<http://www.the-body-shop.ch> (28th June 2010)
http://adage.com/article?article_id=89757 (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	-	Matte Lipstick / Super Lustrous Lipstick / ColorStay Soft & Smooth Lipcolor	ColorStay Mineral Lipglaze / Super Lustrous Lipgloss
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 13	CHF 15 to 18	16	10 to 11
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
1.2% (Retail Value)	1.2% (Retail Value)	1.2% (Retail Value)	1.2% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Perfumeries	30-49 yrs	medium	Hollywood Star
Parent Company:	Revlon Inc.		
References:	see Appendix		
Typical Illustration			

http://www.amazon.de/Revlon-Lippenmakeup-345-Red-Velvet/dp/B000X2MZ4O/ref=sr_1_135?ie=UTF8&s=beauty&qid=1277753560&sr=1-135 (28th June 2010)
http://www.amazon.de/Revlon-Make-up-Lippenmakeup-Lipstick-Attitude/dp/B002SUXKDY/ref=pd_rhf_p_t_1 (28th June 2010)
<http://www.amazon.de/Revlon-Make-up-Lippenmakeup-Lustrous-Softsilver/dp/B00112DXSC> (28th June 2010)
<http://www.deurocos.ch/index.php?page=208> (28th June 2010)
<http://www.revlon.ch/> (28th June 2010)
<http://www.globus.ch/de/parfuemerie/markenwelt/-/revlon.html> (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	-	Lipstick / Viva Glam / Slimshine Lipstick	Tinted Lipgloss / Dazzlegloss / Lustreglass / Plushglass
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 24	CHF 22.50 to 26.50	6 to 137 (!)	13 to 28
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
1.3% (Retail Value)	1.3% (Retail Value)	1.3% (Retail Value)	1.3% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Own store & Amazon) - Department stores / Chemists	12-29 yrs	rather expensive	Celebrity / Hollywood Star
Parent Company:	Estée Lauder Cos Inc		
References:	see Appendix		
Typical Illustration			

http://www.maccosmetics.de/whats_new/collection.tmpl?CATEGORY_ID=CAT26454 (28th June 2010)
http://www.articlealley.com/article_1023896_34.html (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	-	essence lipstick / color & shine lipstick pencil	essence XXXL shine lipgloss / essence volume & gloss lip maximizer
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 3.95	CHF 3.95	4 to 13	6 to 13
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
- % (Retail Value)	- % (Retail Value)	- % (Retail Value)	0.7% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- supermarkets / chemists / department stores	12-19 yrs	very low	Girl
Parent Company:	cosnova GmbH		
References:	see Appendix		
Typical Illustration			

<http://www.ktipp.ch/tests/testsieger/1038806/Lippenstifte> (29th June 2010)
http://www.cosnova.com/de/essence_le.html (29th June 2010)
<http://www.essence.eu/de/produkte/lippen/lippenstift.html> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
 YVES ROCHER	-	Yria / Couleurs Nature Crème / Luminelle / Rouge zéro défaut	Couleurs Nature
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 11 to 28	CHF 15 to 25	8 to 21	7 to 8
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
2.9% (Retail Value)	2.9% (Retail Value)	2.9% (Retail Value)	2.8% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Own Store) - Specialised Stores	12-29 yrs	medium (25%) / rather expensive (75%)	Natural Beauty / Girl
Parent Company:	Yves Rocher SA		
References:	see Appendix		
Typical Illustration			




http://www.amazon.de/s/ref=nb_sb_noss?__mk_de_DE=%C5M%C5Z%D5%D1&url=search-alias%3Dbauty&field-keywords=yves+rocher+lippenstift&x=0&y=0 (29th June 2010)
<http://www.yves-rocher.ch/control/make-up/lippenstifte/> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
Ombia (ALDI discounter private label)	-	Color & Care	Color & Care
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 5 to 6	CHF 5 to 6	4	6
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
-% (Retail Value)	-% (Retail Value)	-% (Retail Value)	-% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- ALDI Stores	12-49 yrs	rather low	-
Parent Company:	Aldi GmbH & Co. Kommanditgesellschaft		
References:	see Appendix		
Typical Illustration			



http://www.google.ch/imgres?imgurl=http://www.aldi-suisse.ch/ch/fr/media/product_range/02_Preissenkungen/06270_Lippenstift_DET.jpg&imgrefurl=http://www.aldi-suisse.ch/ch/fr/html/product_range/2744_16079_FRA_HTML.htm&usg=__auOjFHG7YFM4qssc-tfKPwaMu0o=&h=280&w=569&sz=43&hl=de&start=9&um=1&itbs=1&tbnid=LvGf_VcHwEAnSM:&tbnh=66&tbnw=134&prev=/images%3Fq%3Dombia%2Bcosmetics%252Blippenstift%26um%3D1%26hl%3Dde%26tbs%3Disch:1 (29th June 2010)
<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (29th June 2010)
http://www.aldi-suisse.ch/ch/html/product_range/2744_18497_DEU_HTML.htm (29th June 2010)
http://www.hofer.at/at/html/product_range/2744_17036.htm (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	Professional Make-Up	Black Label / Round Lipstick	Mega Shine
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 19 to 22	CHF 17	96 to 144 (!)	68
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
-% (Retail Value)	-% (Retail Value)	-% (Retail Value)	-% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Own Store) - Flagship Store / Perfumery Douglas	12-29 yrs	rather expensive	Trend-Setter (ultramodern / stylish)
Parent Company:	NYX Los Angeles Inc.		
References:	see Appendix		
Typical Illustration			

<http://www.nyxcosmetics.com/index.php?m=Company> (29th June 2010)
<http://www.nyxcosmetics.ch/index.php?section=shop&catId=22> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	Live Beautifully	Rouge Couture / Shine Deluxe / Silver Sensation	Shine Deluxe Jewels
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 11 to 16	CHF 7 to 11	8 to 22	10
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
2.6% (Retail Value)	2.6% (Retail Value)	2.6% (Retail Value)	2.6% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Retail Stores / chemists	30-49 yrs	medium	Self-assured Woman
Parent Company:	Coty Inc.		
References:	see Appendix		
Typical Illustration	 		

http://www.ciao.de/Margret_Astor_Shine_Deluxe_Lippenstift_Test_8346366 (29th June 2010)
http://www.ciao.de/ASTOR_Rouge_Couture_Lippenstift_Test_8615805 (29th June 2010)
<http://www.house-of-beauty.de/2010/05/27/lipgloss-shine-deluxe-jewels-astor/> (29th June 2010)
http://www.astorcosmetics.de/index.php?to=SP-rouge_couture_home (29th June 2010)
<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
 by Ellen Betrix	The Make-Up of Make-Up Artists	Colour Collections / Lipfinity Color & Gloss / Colour X-Pert	Vibrant Curve Effect
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 15 to 18	CHF 19	5 to 17	12
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
6.6% (Retail Value)	6.6% (Retail Value)	6.6% (Retail Value)	6.6% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Retail Stores / Perfumeries / Supermarkets / Department Stores	30-49 yrs	rather expensive	Trend-setter / Self-assured Woman
Parent Company:	Procter & Gamble		
References:	see Appendix		
Typical Illustration			

http://www.amazon.de/Max-Factor-Colour-Collections-Lippenstift/dp/B001GNBVVM/ref=sr_1_22?ie=UTF8&s=drugstore&qid=1277919289&sr=1-22 (29th June 2010)
<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (29th June 2010)
<http://www.kgeld.ch/tests/testsieger/1038806/Lippenstifte> (29th June 2010)
<http://www.maxfactor.de/de/products/lips.htm> (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	Live Your Beauty	Volume Shine Ultra Glossy / Colour Passion / Volume Shine Pure Diamond /	Volume Shine Gloss / Volume Shine Glacé / Volume Shine Laqué
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 14 to 16	CHF 9 to 13	4 to 16	5 to 6
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
11.9% (Retail Value)	11.7% (Retail Value)	11.7% (Retail Value)	11.7% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Amazon) - Supermarkets / Department Stores	12-29 yrs	medium	Natural Beauty
Parent Company:	Beiersdorf AG		
References:	see Appendix		
Typical Illustration			

http://www.de.nivea.ch/subbrands/category_view/664 (28th June 2010)

<http://www.aldi-suisse.ch/ch/html/downloads/Lippenstift.pdf> (28th June 2010)

<http://www.kgeld.ch/tests/testsiieger/1038806/Lippenstifte> (28th June 2010)

http://www.amazon.de/NIVEA-Shine-Glac%C3%A9-Lipgloss-mousse/dp/B00155MXCW/ref=sr_1_1?ie=UTF8&s=beauty&qid=1277924967&sr=8-1 (28th June 2010)

http://www.amazon.de/NIVEA-Shine-Glac%C3%A9-Lipgloss-mousse/dp/B00155MXCW/ref=sr_1_1?ie=UTF8&s=beauty&qid=1277924967&sr=8-1 (28th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	-	-	-
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 9	CHF 5.20	4	3
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
-% (Retail Value)	-% (Retail Value)	-% (Retail Value)	-% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Online (Own Store) - Own Retail Stores	12-29 yrs	rather low	- (in cosmetics)
Parent Company:	H & M HENNES & MAURITZ AB		
References:	see Appendix		
Typical Illustration			

http://shop.hm.com/de/shoppingwindow?dept=KOSM_MAKE&shoptype=S (29th June 2010)
http://www.ciao.de/H_M_Steel_Frostschutz_Lipgloss__Test_2333743 (29th June 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
MNY MAYBELLINE NEW YORK	Come Out And Play!	-	Color Gloss
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
-	CHF 3.95	-	36
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
-% (Retail Value)	-% (Retail Value)	-% (Retail Value)	-% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Supermarkets / Department Stores	12-19 yrs	very low	Girl
Parent Company:	Maybelline Jade New York (L'Oréal Group)		
References:	see Appendix		
Typical Illustration			

<http://www.schweizer-illustrierte.ch/fashion-beauty/wie-im-paradies> (2nd July 2010)
<http://www.boleromagazin.ch/news/schoenheit/kosmetik-linie-maybelline-n-y> (2nd July 2010)
<http://www.mny.com/de/index.html#/Farben?type=doe-foot-gloss> (2nd July 2010)

Brand	Tag Line	Sub Brand Lipsticks	Sub Brand Lip Gloss
	...you are so beautiful!	absolut moisture / rouge satin / stay on	Color Gloss
Price Lipstick	Price Lip Gloss	Colours Lipsticks	Colours Lip Gloss
CHF 5.50 to 6.50	CHF 5 to 6	8 to 16	10
Brand Share 2006	Brand Share 2007	Brand Share 2008	Brand Share 2009
-% (Retail Value)	-% (Retail Value)	-% (Retail Value)	-% (Retail Value)
Distribution	Positioning Age (= highest Affinity)	Positioning Price	Brand Personality
- Supermarkets / Department Stores	30-49 yrs	rather low	Trend-setter
Parent Company:	cosnova GmbH		
References:	see Appendix		
Typical Illustration			

http://www.catrice.eu/?page=products_lips_lipstick (2nd July 2010)
http://www.cosnova.de/de/cosnova_GmbH_auf_Wachstumskurs.html (10th July 2010)
<http://www.cosnova.com/en/catrice.html> (10th July 2010)

Appendix 18: Size of Swiss female population

In 2008, the female population in Switzerland added up to 3,915,200 million. Hereof, 221,700 women were of age 15 to 19, 229,200 were of age 20 to 24, and 248,900 women were between 25 and 29 years old. Combined these three segments add up to 699,800. The segment 15 to 24 years represents 11.52% of all Swiss women respectively 5.85% of the whole population. By adding the women aged 25 to 29 these figures rise to 17.87% respectively 9.09%. (GfK Switzerland, 2009, p.10)

For approximately 63.7% of the Swiss people, German is the main language, for 20.4% this is French, and for 6.5% it is Italian. The remainder speak Romansh or other languages (GfK Switzerland, 2009, p.4).

The share of foreign nationals accounts for 21.7% in the year 2008 (GfK Switzerland, 2009, p.11). Besides citizens from other German speaking countries, the three largest foreigner groups in Switzerland have Italian, Serbian or Portuguese nationality (Swiss Federal Statistical Office, 2008).

Figure 7 shows the four official languages spoken in Switzerland by region.

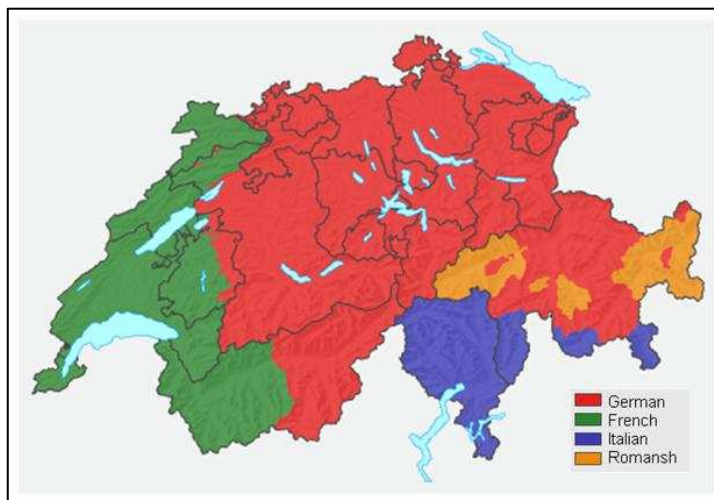


Figure 7: The official languages spoken in Switzerland by region. Source: Swiss Federal Statistical Office, no date.

Appendix 19: lipCat's Corporate Design Manual

lipCat's Corporate Design Manual:

- Logos always as shown below
- Font Logo: Alba Super / Font size: 72
- Font Slogan: Arial Unicode MS / Font size: 15
- The pink colour: Red: 255 Green: 0 Blue: 106



Appendix 20: Primary Market Research Findings

The conducted paper based survey (10 participants) and the electronic survey (32 participants) have provided lipCat with valuable insights. A diagram for every asked question is provided in the appendix. The most important findings and implications for lipCat shall be briefly presented in the following. It is important to note that these surveys are not representative; they can only provide a tendency.

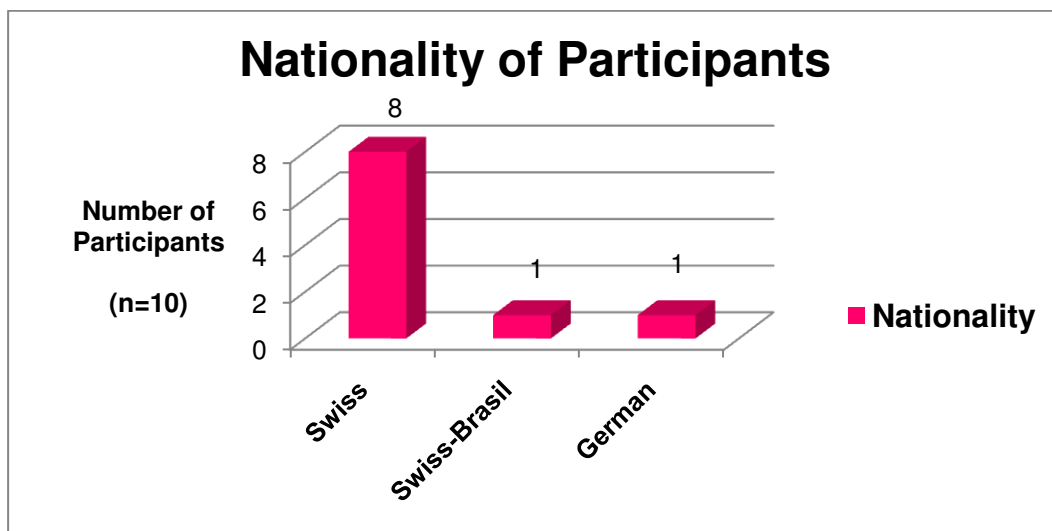
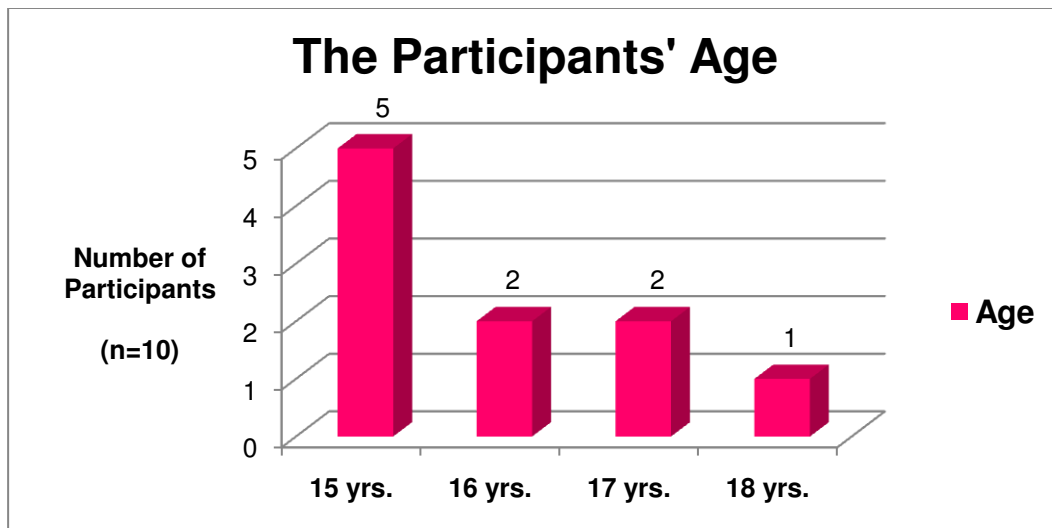
- The participating women tend to use lip gloss more often than lipsticks.
- The paper based group spent typically CHF 9.00 on a lipstick; while the cheapest ever was CHF 3.00, the most expensive ever was CHF 15.00.
- The electronic group spent typically CHF 7.50 on a lipstick; while the cheapest ever was CHF 2.45 the most expensive ever was CHF 24.95.
- The paper based group purchased lipsticks and lip gloss products between less than once a month to every 2 weeks.
- The majority of the electronic group buys lipsticks and lip gloss products between less than once a month and every two weeks.
- The majority of the participants do not buy decorative cosmetics online.
- For both groups, price and quality are among the most important factors when buying a lipstick. A large variety of shades was ranked 2nd (out of 7 ranks) from the electronic group, and 4th from the paper based group. Tolerance is of medium importance. Packaging, Brand Awareness, and celebrity endorsement occupy the bottom ranks in that sequence.
- Both groups said that the product quality influences their purchase decision by approx. 70%, while the packaging does so for approx. 30%.
- Lipsticks or lip gloss products are being purchased at supermarkets and department stores in most cases.
- Online and at retail stores, most women tend to buy only one or two lipsticks or lip gloss products per purchase. Usually, 1 to two different colours are being bought. There are, however, women who buy up to four different lipstick or lip gloss colours per shopping trip.
- The participants have been highly satisfied with lipCat's product quality; the Pearl lipstick scored 8.63 out of 10 and the Crème lipstick 8.50 out of 10 with regard to the overall impression.

- The slogan, the 'warning sticker', the pink colour, the variety of shades, and New York as the manufacturing origin get good scores (above 5 out of 6) from both groups. The logo and the current packaging style achieve average to good scores (approx. 4.5 out of 6). Interestingly, both groups like the brand name much more after its 'origin' or meaning has been explained.
- The overwhelming majority of the participants would be willing to spend the intended price of CHF 3.50 on a lipCat lipstick. Moreover, most women would recommend lipCat lipsticks to their friends.
- Almost none of the participants care about the manufacturing origin of a lipstick prior to a purchase. However, most participants liked the fact very much that lipCat lipsticks are being produced in New York.
- The Price Sensitivity Analysis with the help of the Van Westendorp method revealed that the participants think that a price between CHF 6.60 and CHF 9.00 would be fair for one lipCat lipstick. This is very good news, since the launch price is intended to be CHF 3.50. However, there might be an inherent risk that some consumers perceive this price as being too low (they doubt the quality).
- Only a minority get inspired to buy lipsticks from watching online ads or visiting beauty relates websites. Most participants inform themselves about decorative cosmetics products by visiting retail stores, from TV and magazine ads, and personal recommendations from friends are tremendously important. This word-of-mouth potential is very important to lipCat.
- The shipping flat rate of (only) CHF 3.50 is in most cases only perceives as 'just appropriate'. It will be of utmost important to lipCat to lower this price if possible. On average they spend CHF 4.50 on shipping when purchasing decorative cosmetics from other online stores.
- Most participants try out new lipsticks / lip gloss products, respectively brands, frequently.
- On average, participants spend between CHF 5.50 and CHF 7.00 on one lip gloss product.
- The direct comparison with 'essence' is very meaningful. A scarce majority said that lipCat's product quality is superior to essence. This can be considered a success for lipCat – after all, these women called themselves 'essence' fans. While everyone agreed that lipCat has by far more shades on offer, everyone perceived 'essence's' value-for-money to be superior to lipCat's. The fact that a minimum of 3 lipsticks have to be purchased and the shipping fee might have affected this believe.

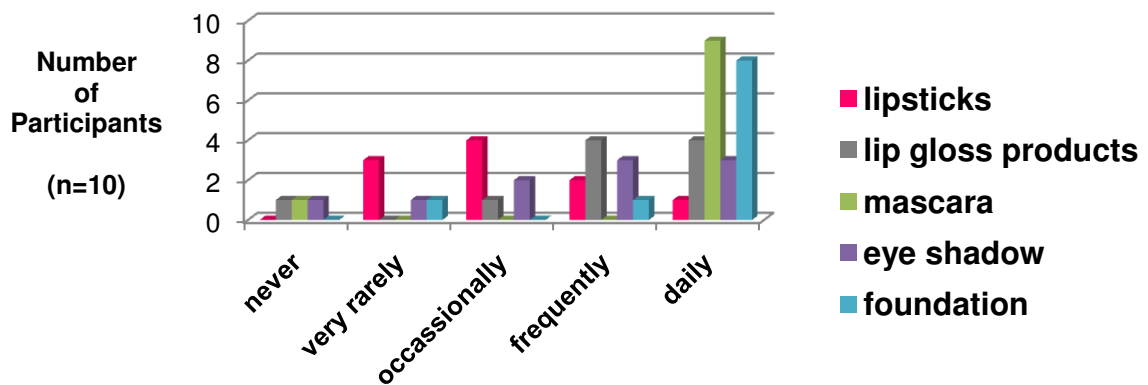
Conclusion

lipCat seems to be on the right track as far as product quality, manufacturing origin, variety of shades, product pricing and branding is concerned. Attention has to be paid to the packaging design, the shipping flat rate and the hesitation of many young women to purchase decorative cosmetics online. Maybe, later, lipCat's presence in conventional retail stores will be inevitable. lipCat's non-existent brand awareness currently and the absence of celebrity endorsement do not represent too a large disadvantage. There certainly is a 'slumbering' segment in Switzerland that is open to buy lipCat products. The tendency that even 'essence' fans acknowledge that lipCat's product quality is superior (product quality is among the most important purchase criteria), is something to draw hope from.

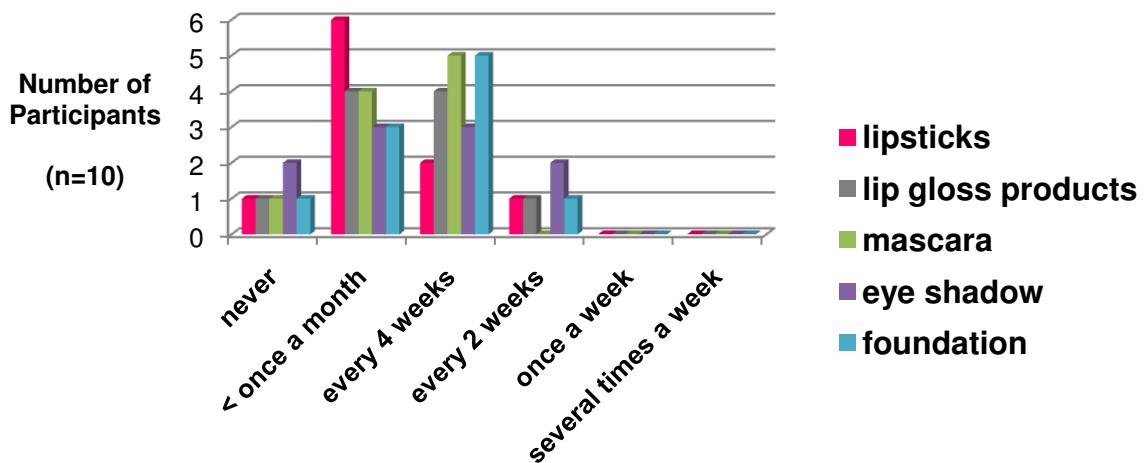
Paper Based Survey (10 participants)



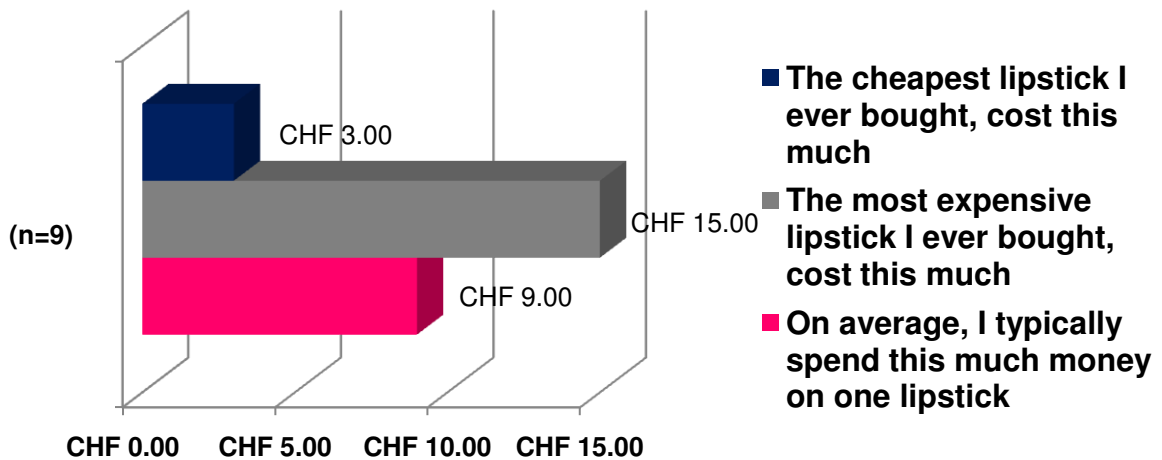
How often do you use the following cosmetics products?



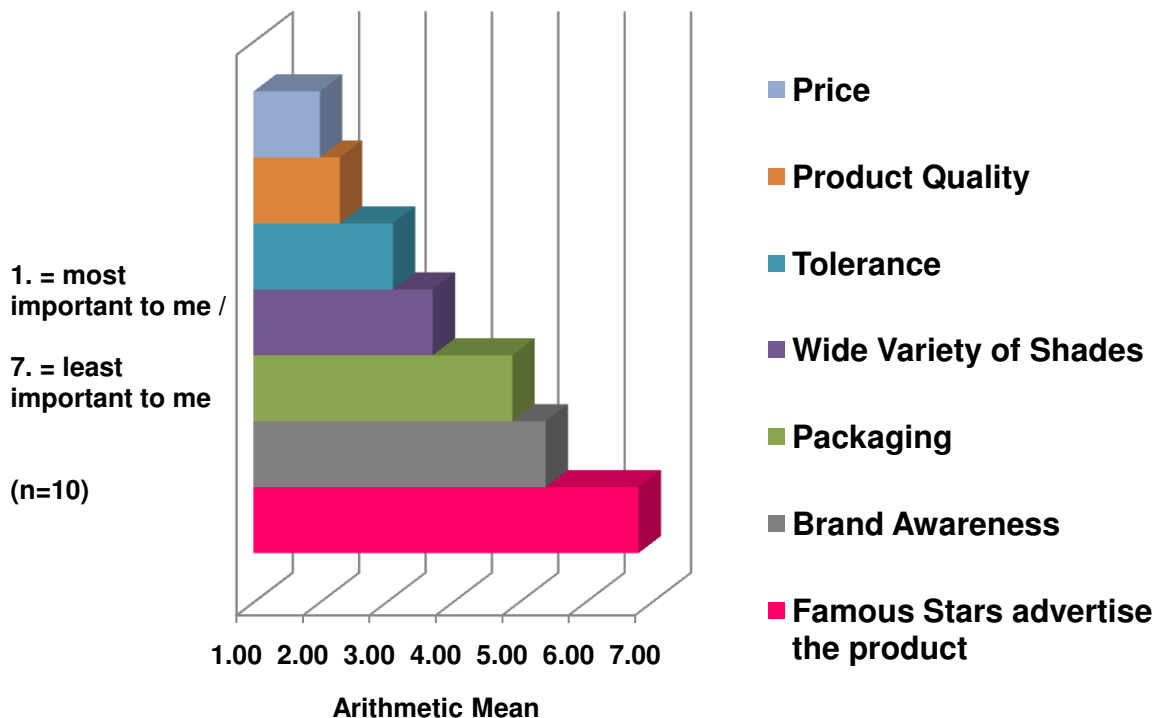
How often do you buy the following cosmetics products?



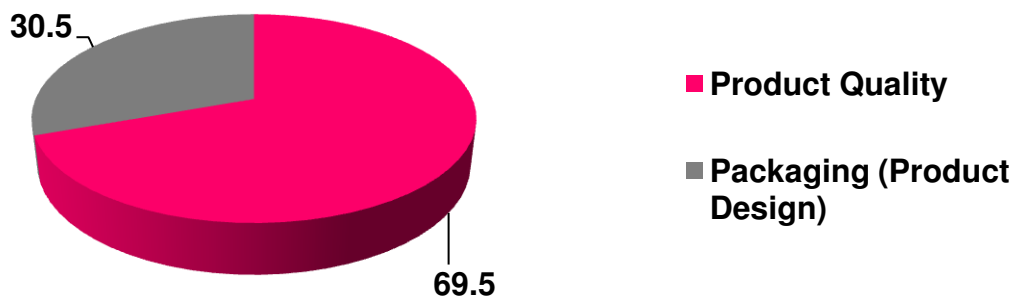
Prices of Lipsticks



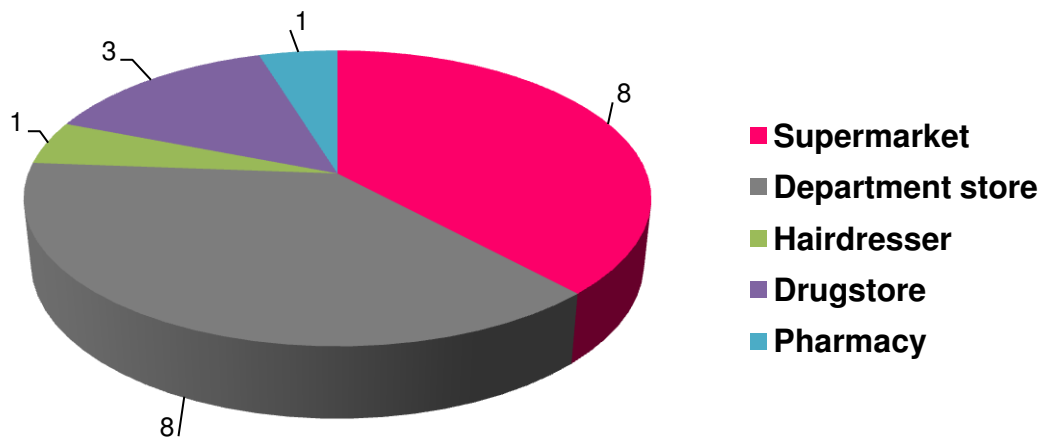
Please rank the following criteria according to their importance to your buying decision of lipsticks. Please rank the places 1 to 7.

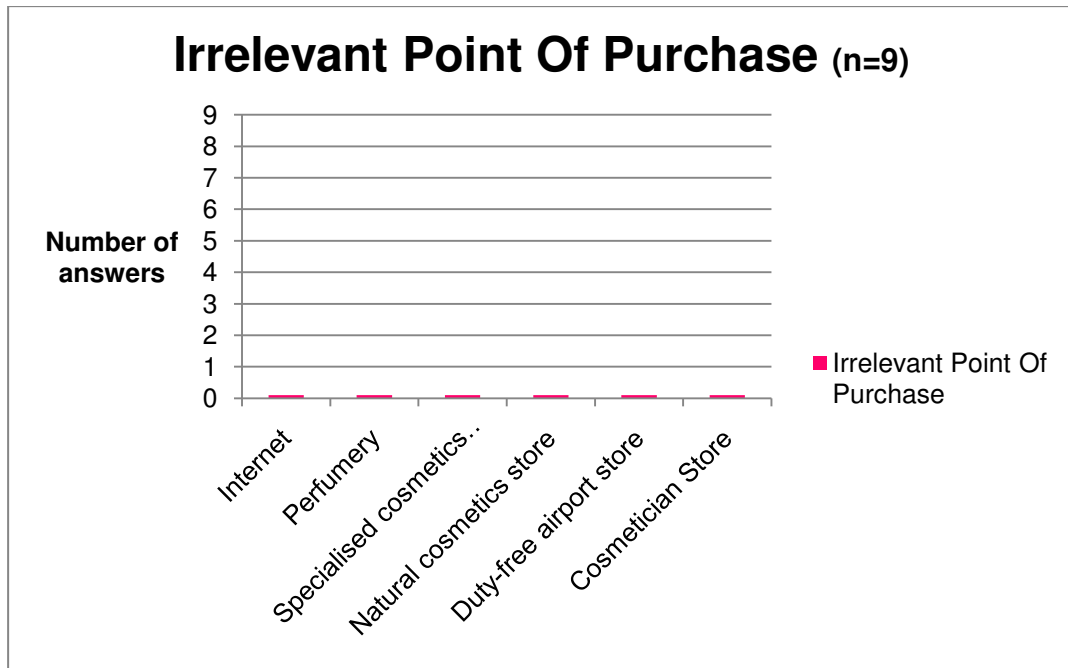


Please specify how much influence (on a percentage basis) the two criteria „Product Quality“ and „Packaging“ do have on your decision to buy a lipstick.
(in %, n=10)



Where do you buy lipsticks?
(n=9, number of answers)





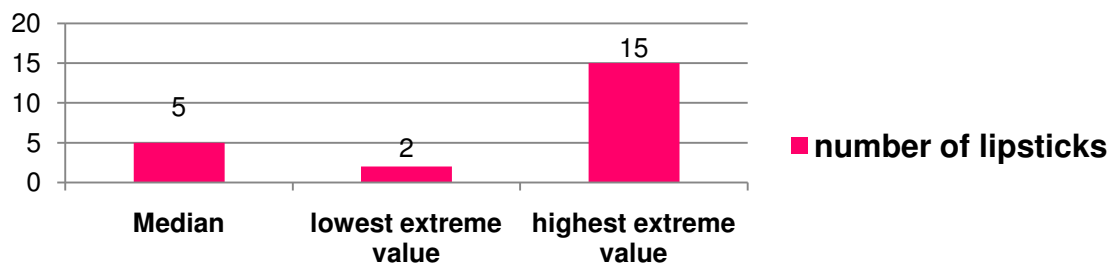
Since no participant has ever bought cosmetics online, the relating questions could not be evaluated.



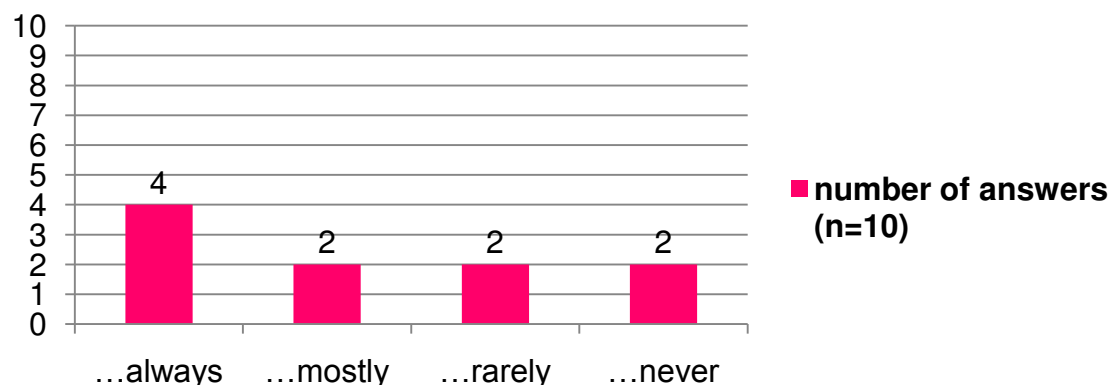
How many different colours do you buy in a typical lipstick purchase in a retail store? (n=10, number of answers)



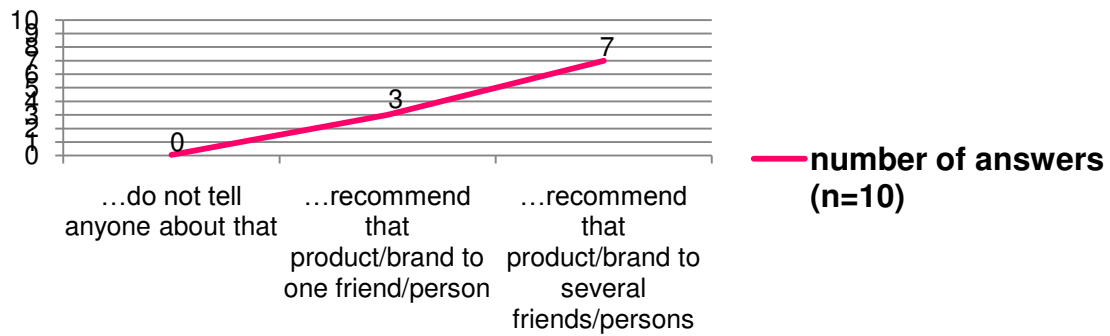
How many lipsticks are you concurrently using respectively how many lipsticks are there in your household that you still could use? (n=8)



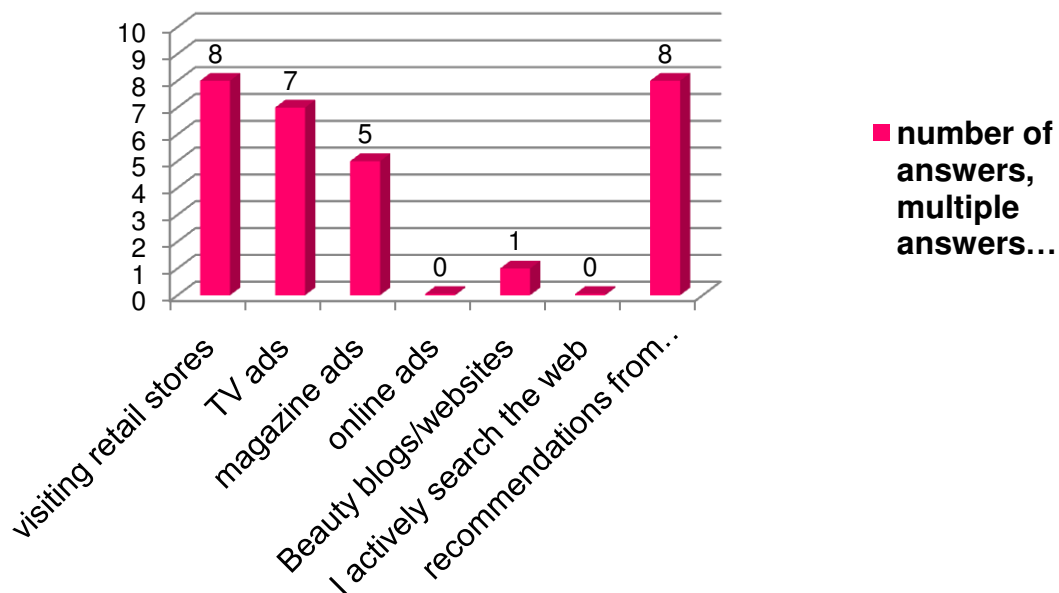
When leaving the house, I carry a lipstick with me...



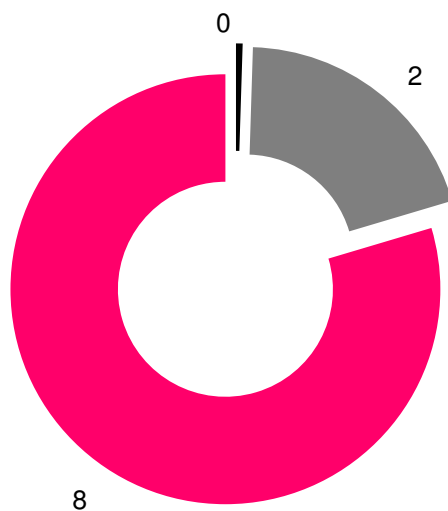
If I am satisfied with a lipstick or lipstick brand, then I...



How do you inform yourself about lipsticks?



Buying habit – please tick what is most likely applicable to you. (n=10)

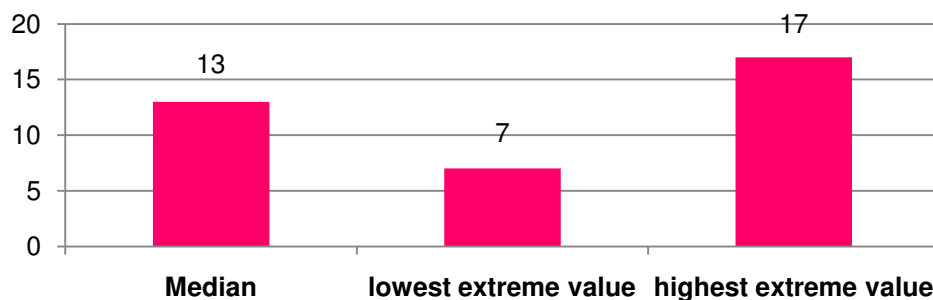


■ I always buy the same lipstick / from the same brand

■ Though I do always buy one specific lipstick / from one specific brand, I do also try new/other lipsticks

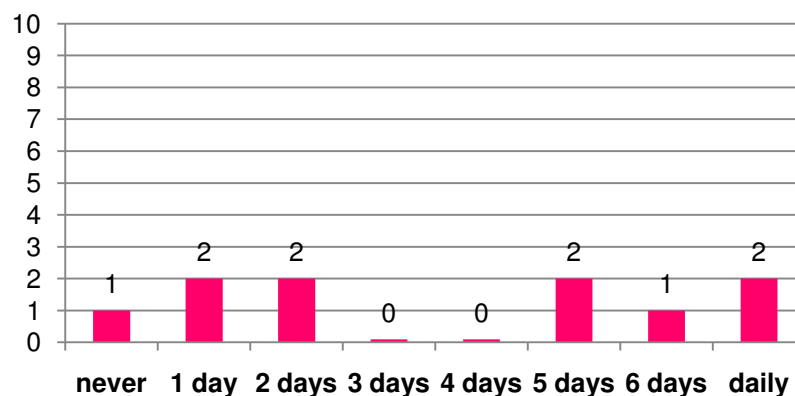
■ I do not have a favourite lipstick / favourite lipstick brand – I change the brands frequently

At what age did you buy your first-ever lipstick?



■ age (n=10)

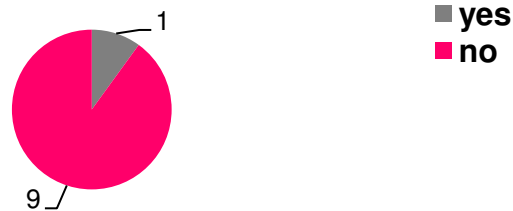
On how many days in a typical week do you use lipsticks?



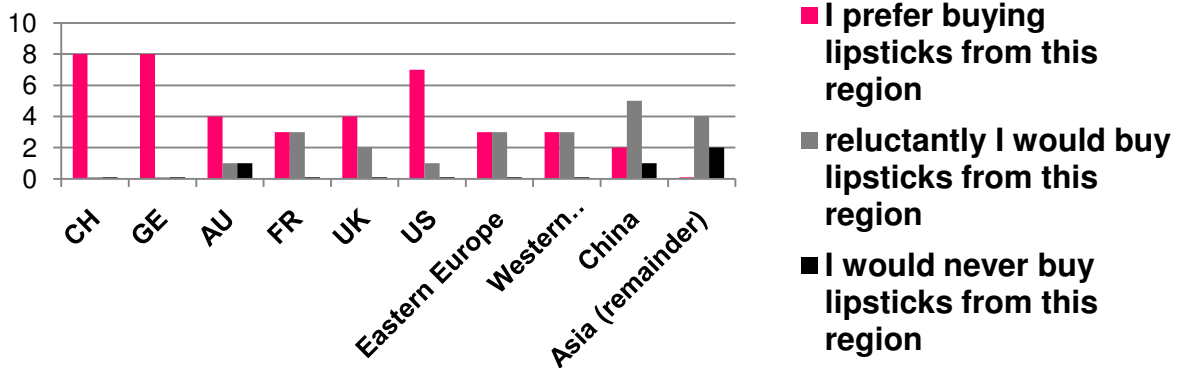
■ number of answers (n=10)

Do you pay attention to the manufacturing origin of the lipsticks you buy, prior to the purchase decision?

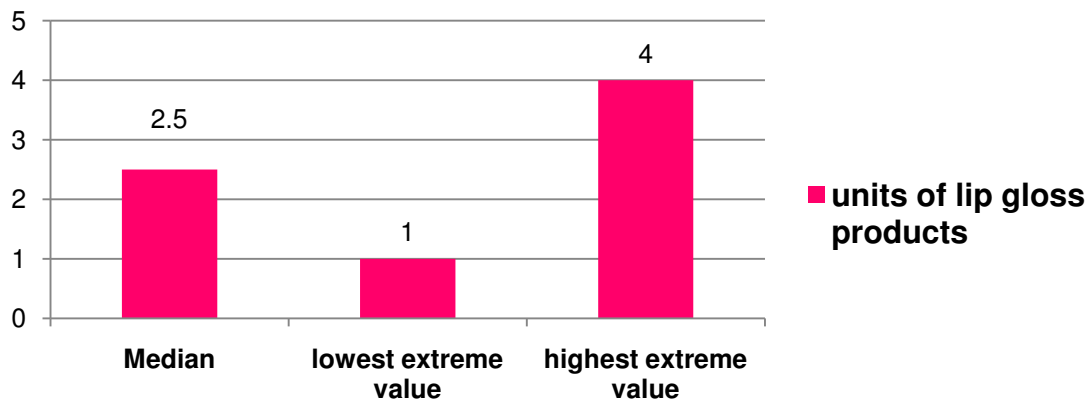
(n=10)



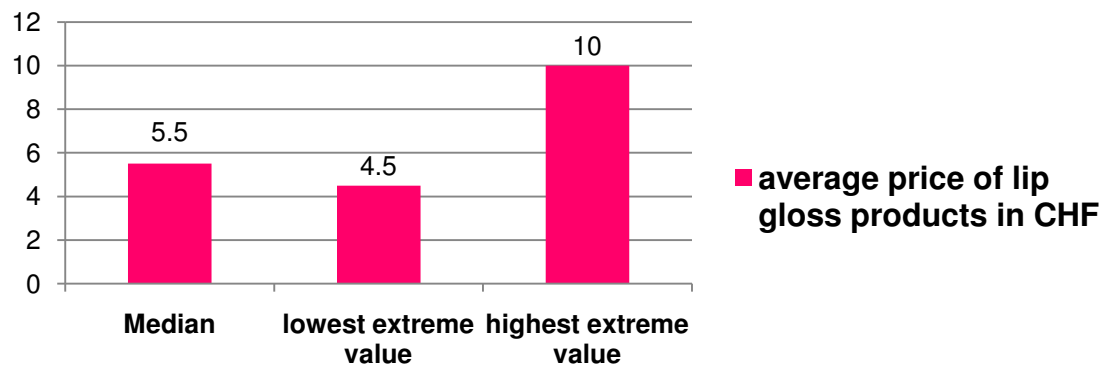
What is true of your lipstick buying behaviour regarding the country/region of origin? (n=10)



How many lip gloss products do you buy in a typical month? (n=9)



How much do you typically spend on one lip gloss product on average? (n=8)

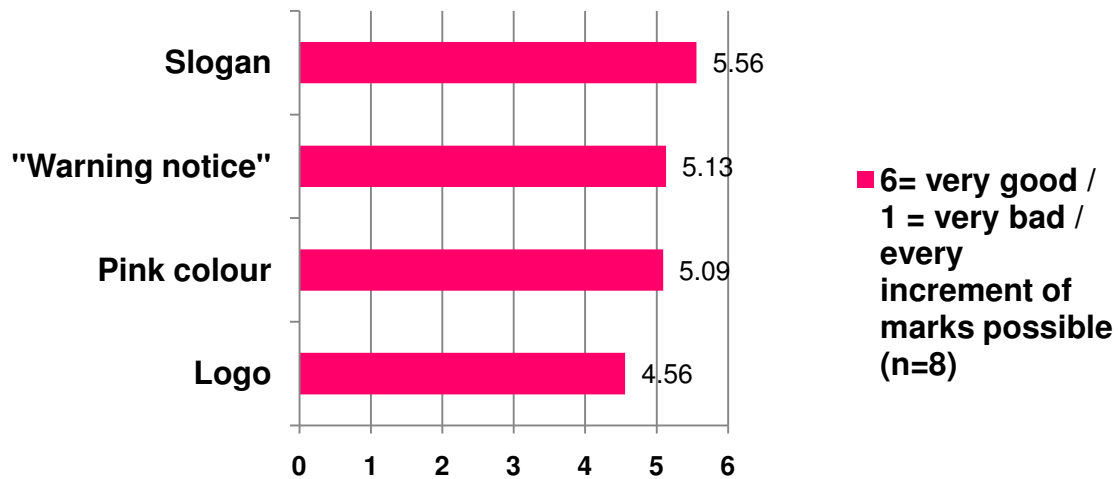


Why do the participants not buy decorative cosmetics online? (n=10)

- I never buy something online.
- I never hit on this idea.
- I prefer buying in a retail store.
- I cannot try out the product/colour.
- I can buy these products in every supermarket.
- Often, shipping fees occur.
- I do not like purchasing online.
- I do not trust the internet as a shopping channel.
- I want to try out the colour on my skin first.
- I prefer department stores.
- It is inconvenient. I prefer buying from my hairdresser's store.

How do you like the following elements in Swiss school marks?

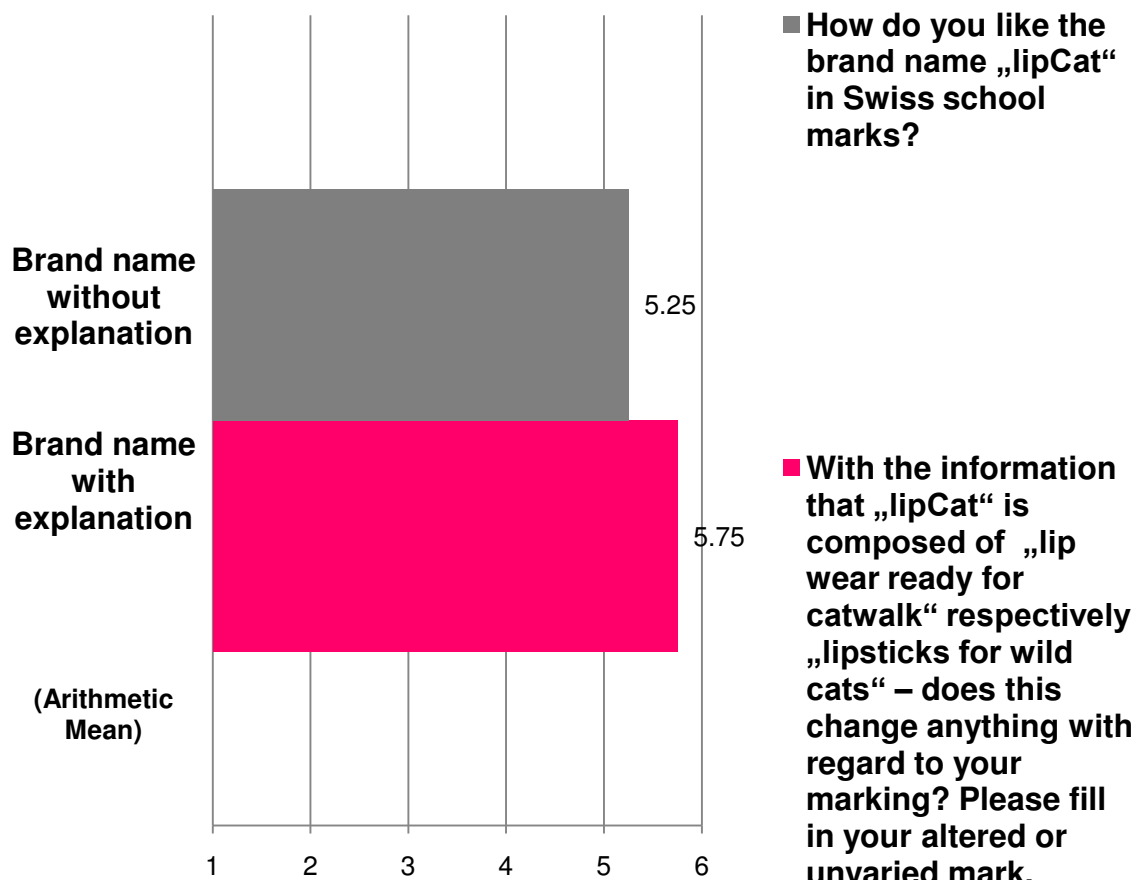
(Arithmetic Mean)



Perception of the brand name "lipCat"

(n=8)

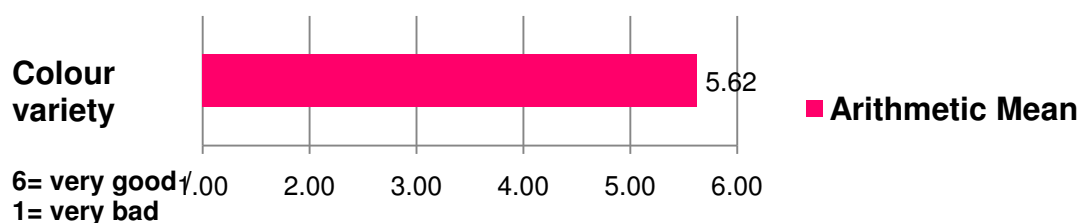
6= very good / 1= very bad



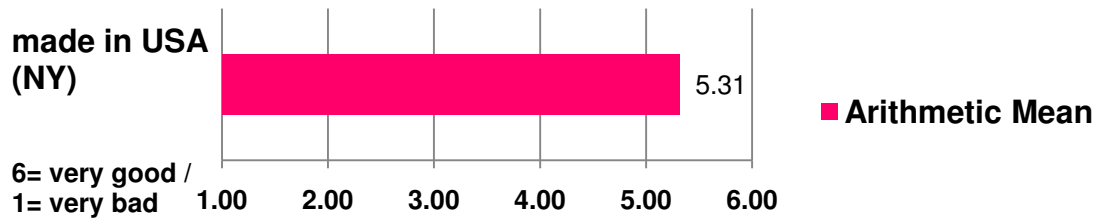
Please tick the 3 motifs that, in your opinion, best represent or advertise the lipCat lipstick collection.



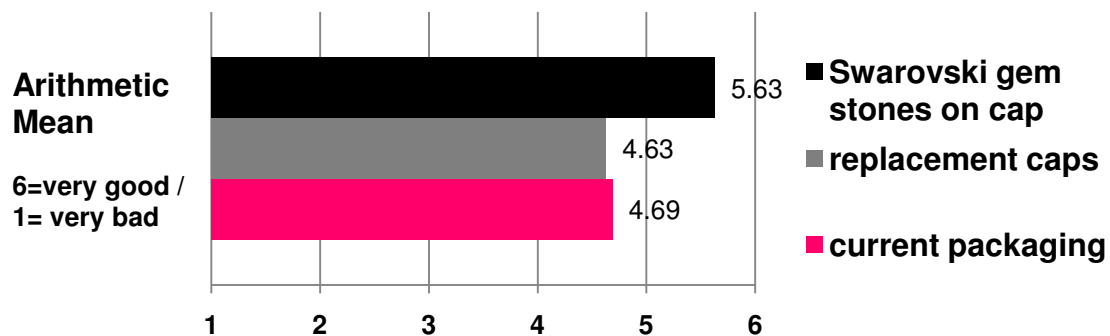
How do you rate the variety of 75 colours (54 Pearl & 21 Creme) in Swiss school marks?
(n=8)



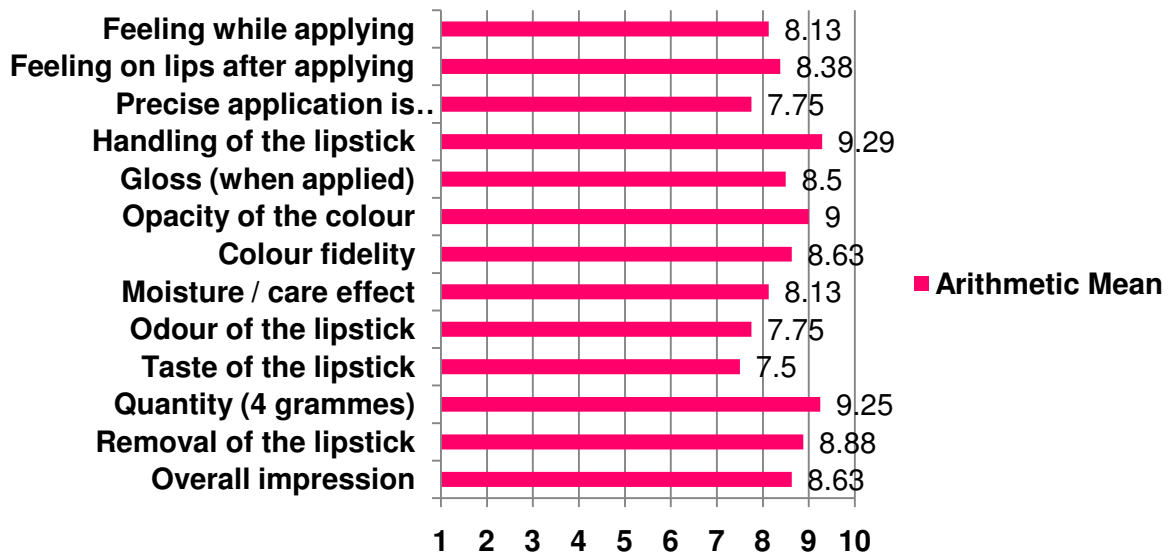
lipCat lipsticks are being developed and manufactured in the USA in New York. How do you like that in Swiss school marks? (n=8)



How do you overall like the lipstick packaging and the management's ideas in Swiss school marks? (n=8)

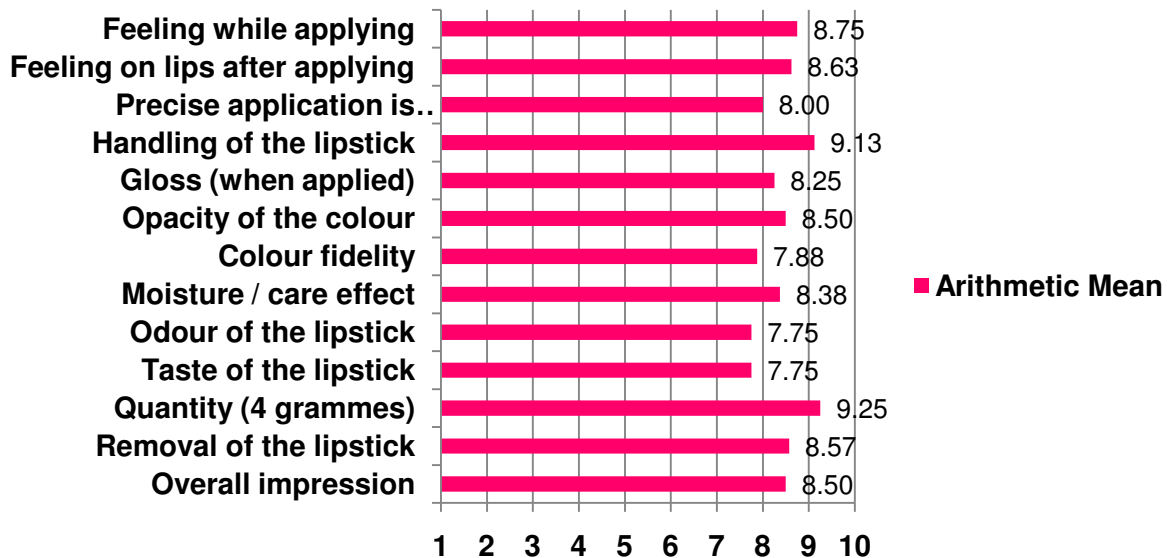


Now, please apply your Pearl lipstick and rate the following criteria by ticking appropriately.
(n=8, 10= very good / 1= very bad)



Now, please apply your Creme lipstick and rate the following criteria by ticking appropriately.

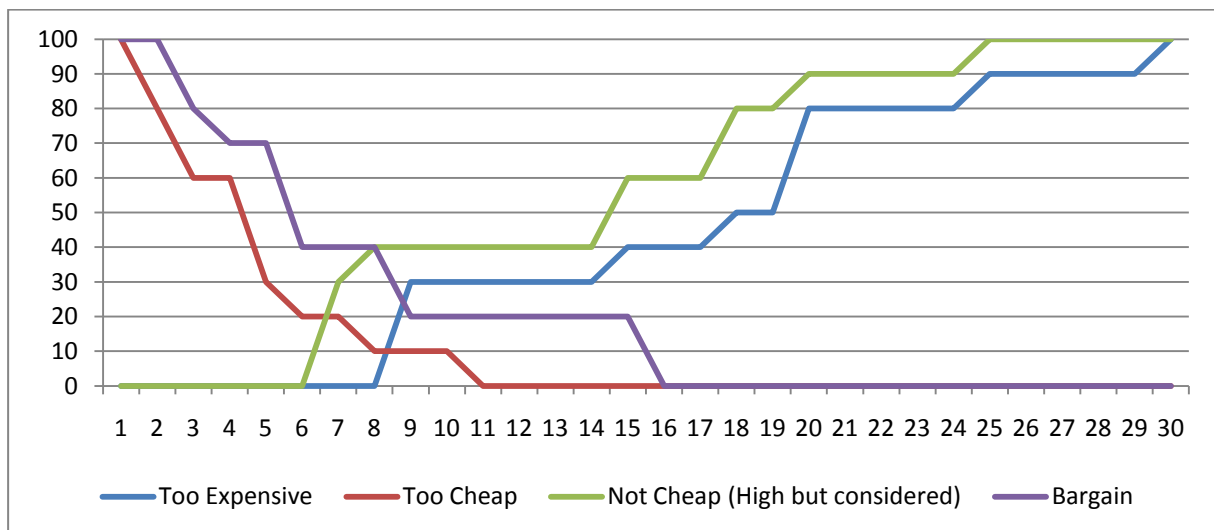
(n=8, 10= very good / 1=very bad)



Van Westendorp's Price Sensitivity Meter (n=10)

The participants had been asked:

- At what price would you consider a lipCat lipstick being too expensive, i.e. you would not contemplate a purchase of the product?
- At what price would you consider a lipCat lipstick being too cheap, i.e. you would have doubts regarding the product's quality?
- At what price would you consider a lipCat lipstick being expensive, i.e. a purchase would be possible in principle, but only after considering it carefully.
- At what price would you consider a lipCat lipstick being cheap, i.e. a purchase would be a great offer, a true bargain?



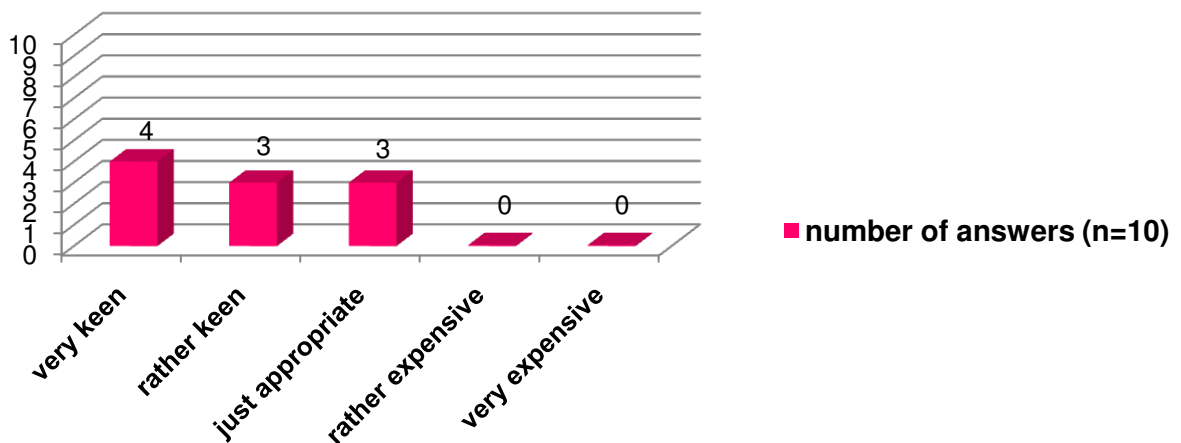
The intersection of 'too cheap' and 'high, but considered' form the lower bound of an acceptable price range. The intersection of 'too expensive' and 'bargain' form the upper bound of an acceptable price range. The X-axis shows the price in Swiss Francs, the Y-axis the cumulative percentage of price points mentioned.

For lipCat's lipsticks the acceptable price corridor is therefore approximately CHF 6.60 to CHF 9.00. This is a very good sign: on average, the participants think the product is worth much more than lipCat intends to charge. It is intended to offer the lipsticks at a price of CHF 3.50 plus shipping. An alternative would be to offer a price per lipstick that already includes shipping (minimum order quantity of 3 lipsticks).

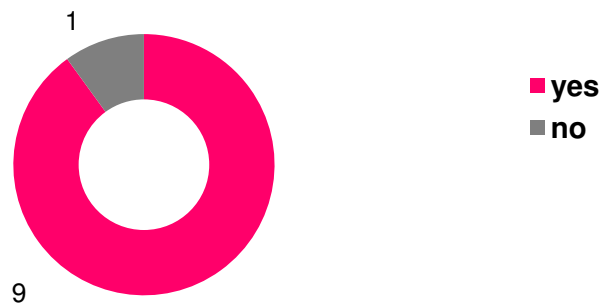
Source: Simon Kucher & Partners. <http://www.wiwi.tu->

[bs.de/marketing/service/download/art/SKP_Voigt_Wertbasiertes%20Pricing.pdf](http://www.wiwi.tu-bs.de/marketing/service/download/art/SKP_Voigt_Wertbasiertes%20Pricing.pdf)

The first 3 lipsticks in any one order will cost CHF 3.50 each, from the 4th to the 11th, every lipstick will cost each only CHF 2.90. In light of your quality perception regarding the lipCat lipsticks, how do you rate these prices?



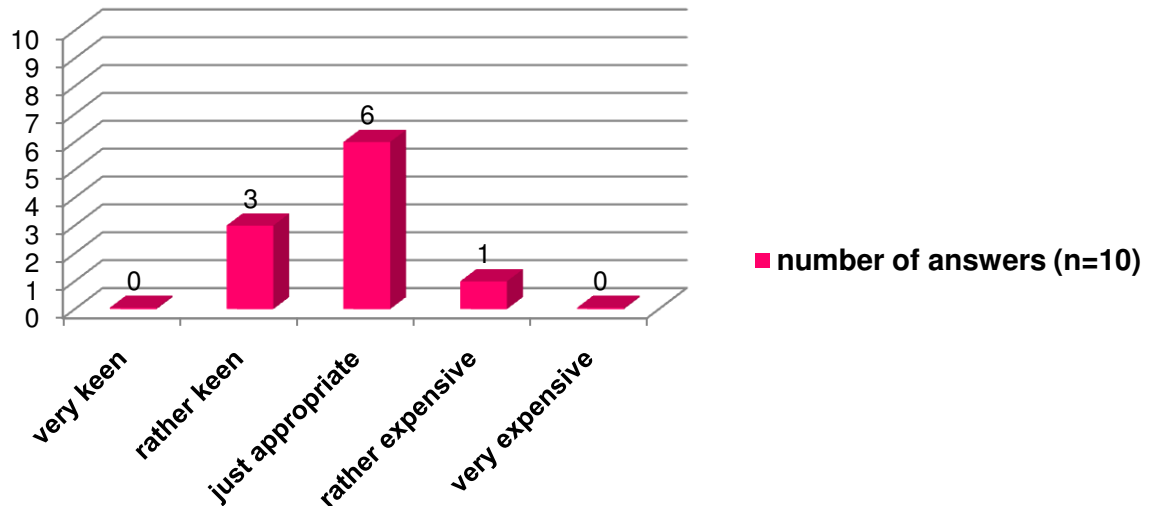
Would you spend CHF 3.50 on a lipCat lipstick? (number of answers, n=10)



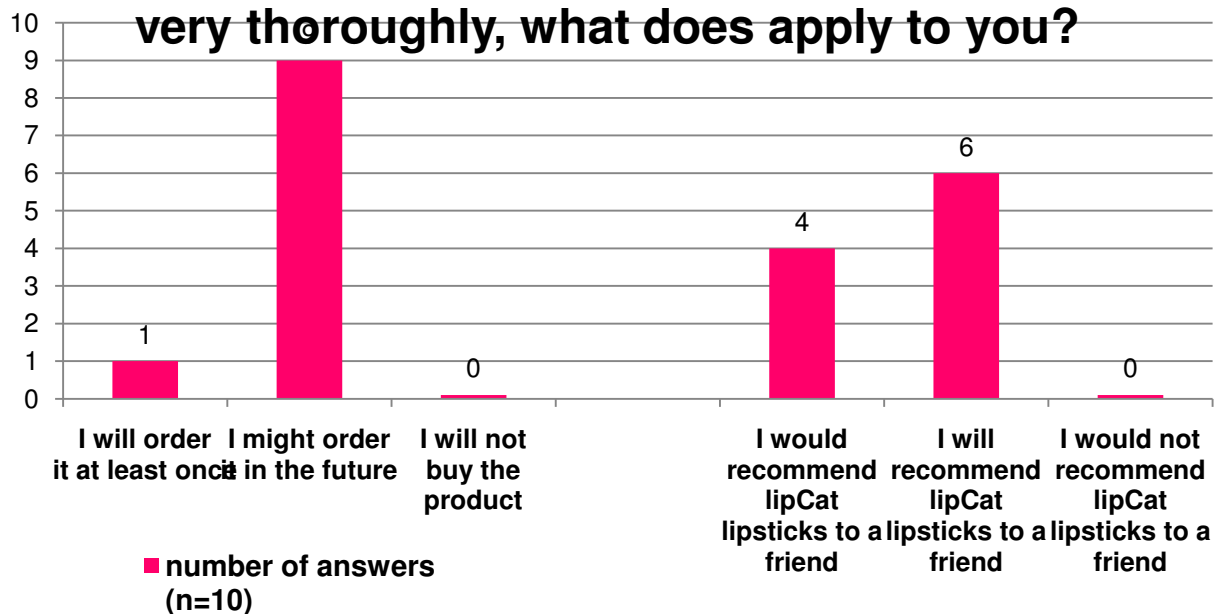
Annotation: For one girl, the price would have been too low – in her opinion it indicated a poor quality, although the actual quality was perceived as good.

There will be a shipping flat rate of CHF 3.50.

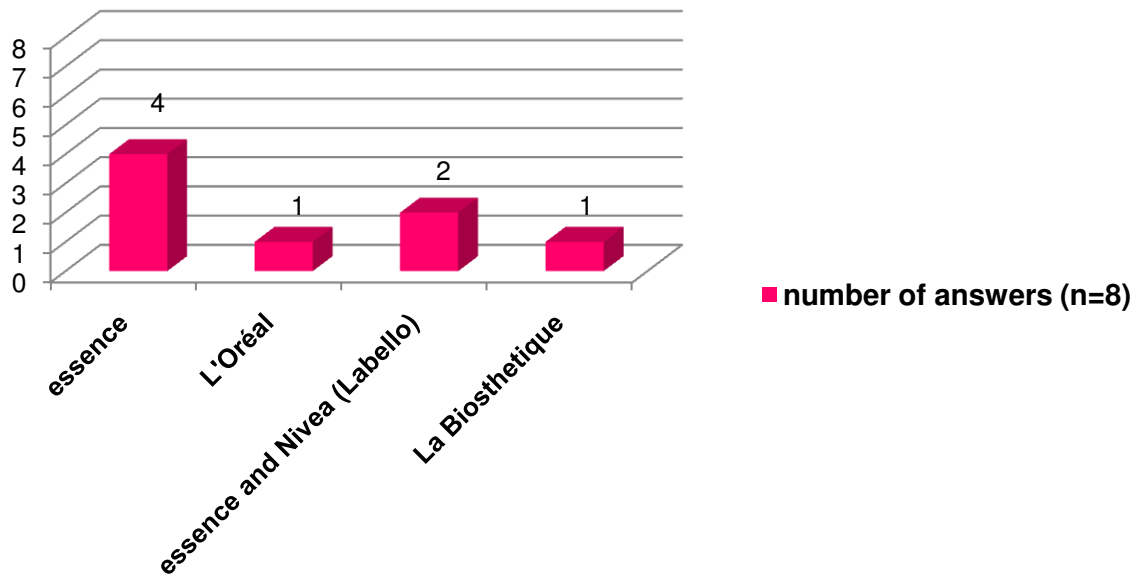
How do you rate this?



Now that you were able to test the lipCat lipsticks very thoroughly, what does apply to you?

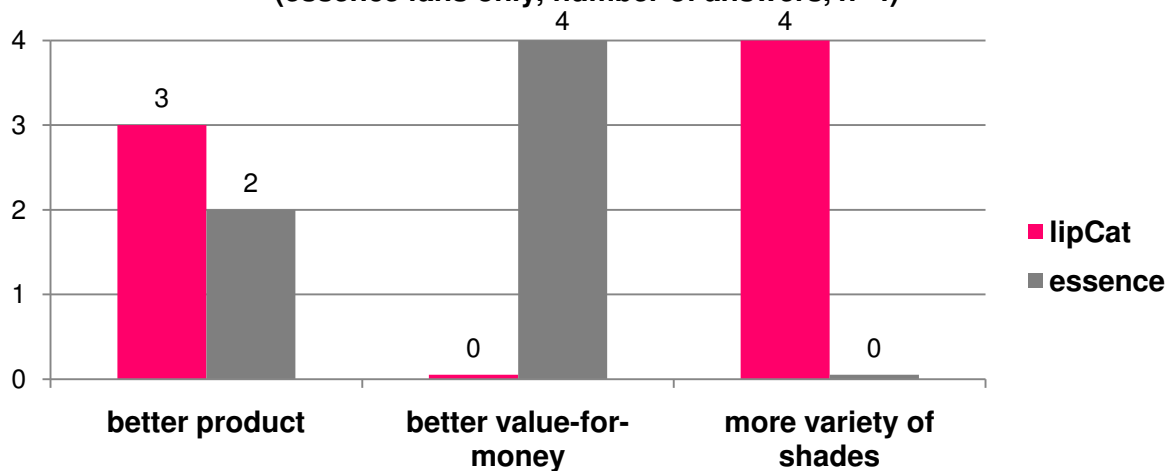


To date, what is your favourite lipstick brand?



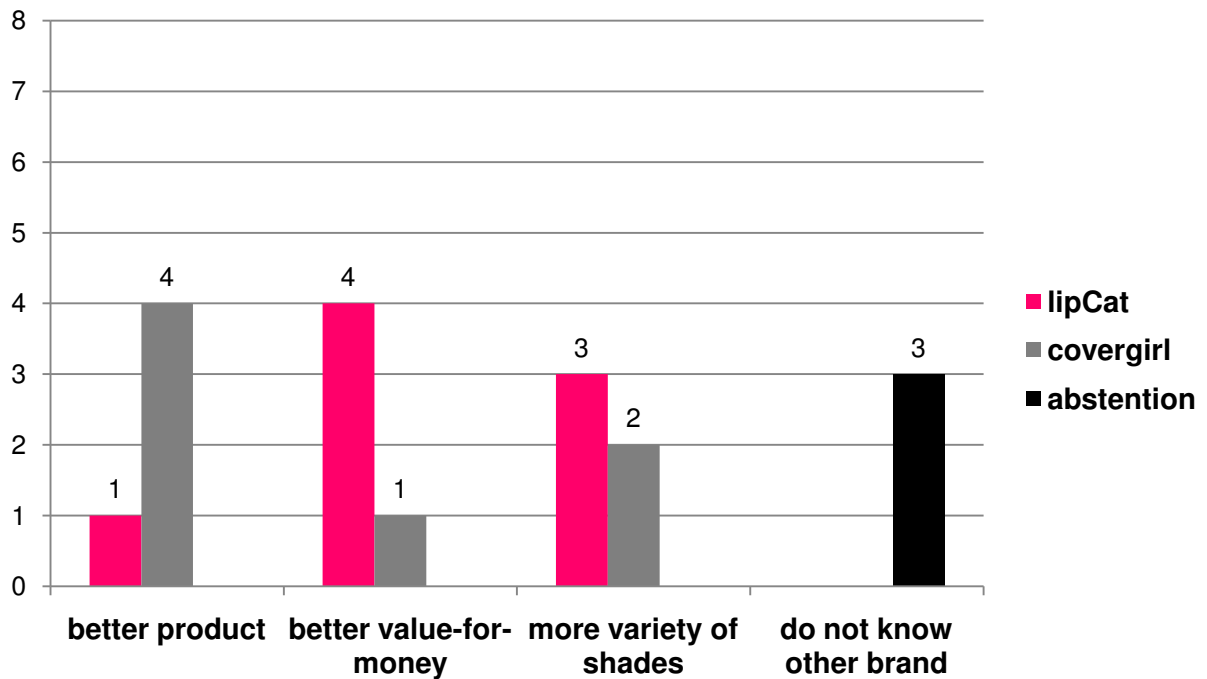
lipCat vs. essence

(essence fans only, number of answers, n=4)



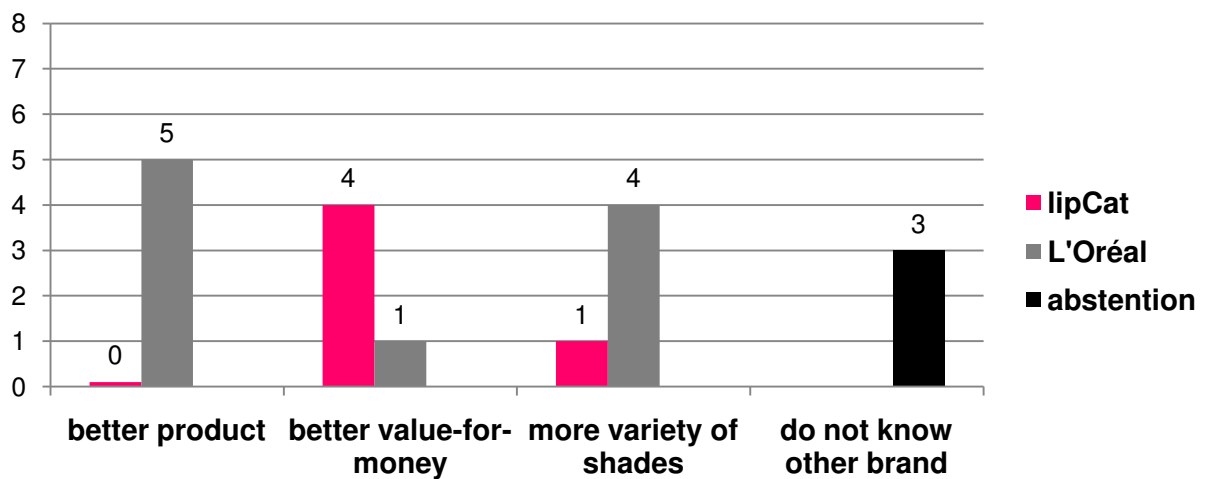
lipCat vs. covergirl

(number of answers, n=8)



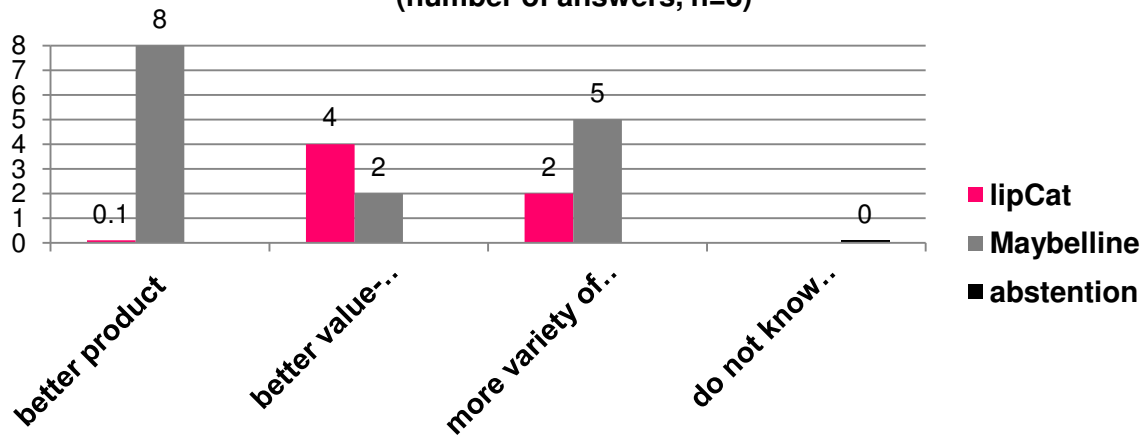
lipCat vs. L'Oréal

(number of answers, n=8)



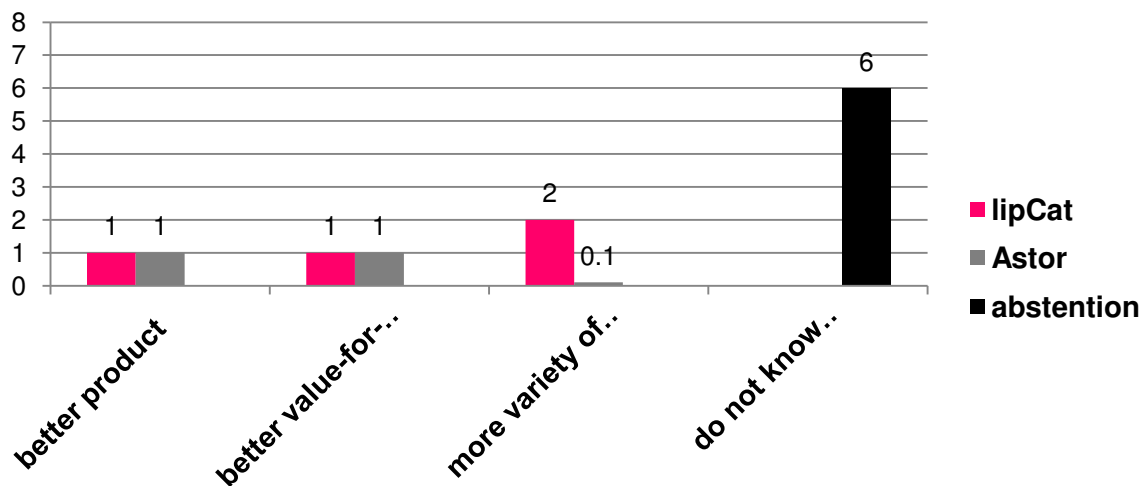
lipCat vs. Maybelline Jade New York

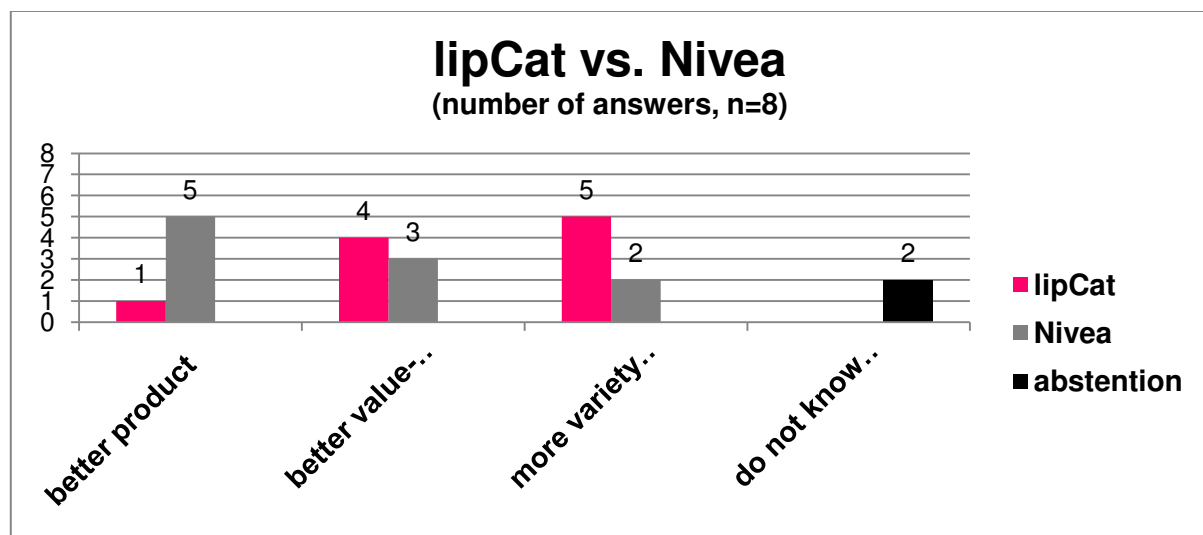
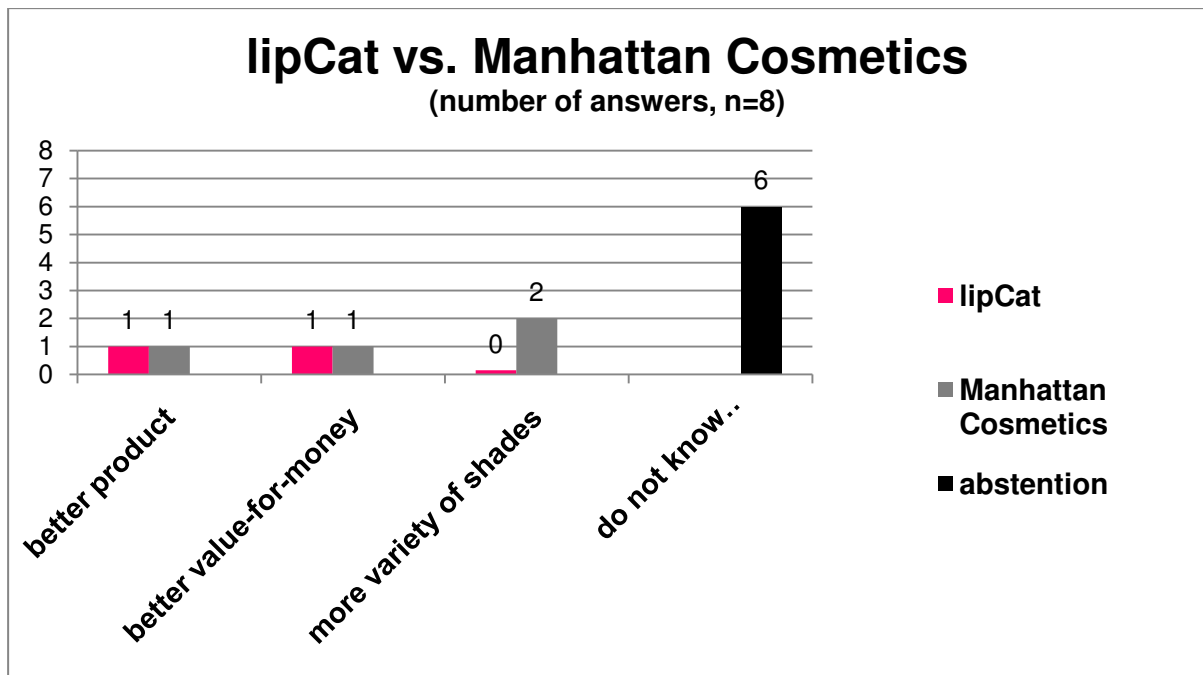
(number of answers, n=8)



lipCat vs. Astor

(number of answers, n=8)





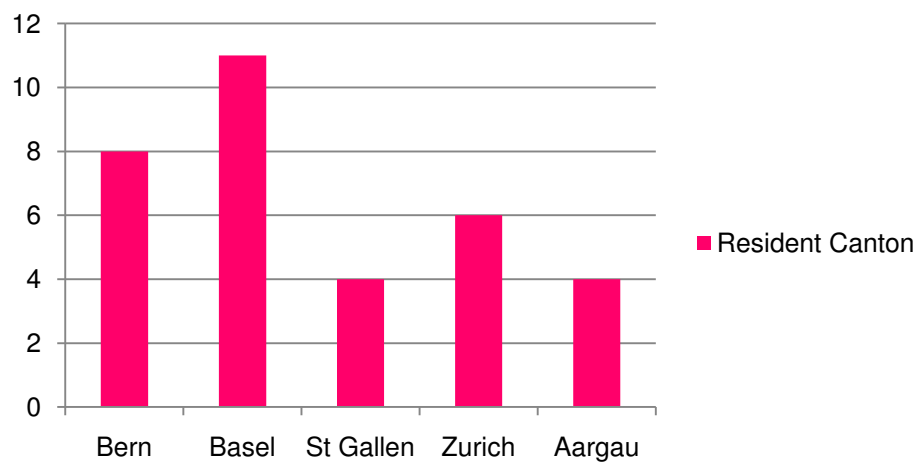
Annotation: In case of a 'draw', both brands received one point.

Electronic Survey on Facebook (33 participants)

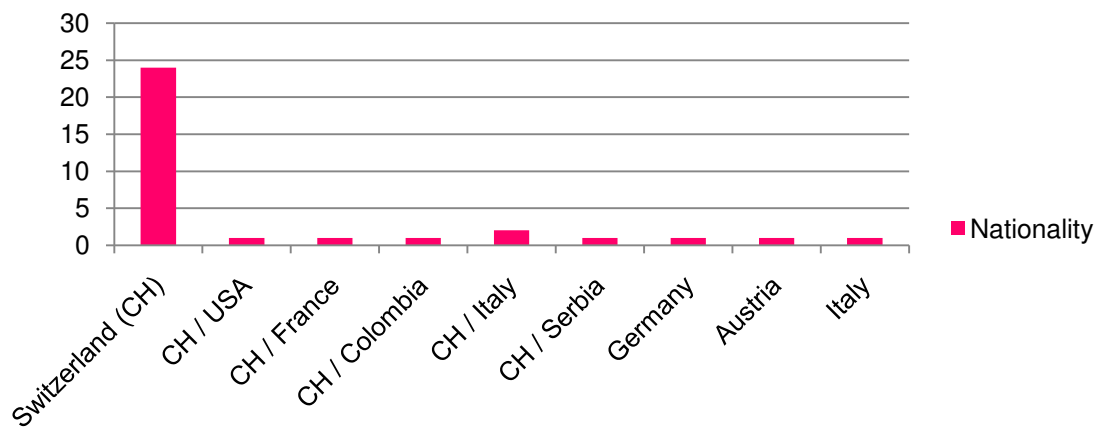
Participant's Age (n=33)



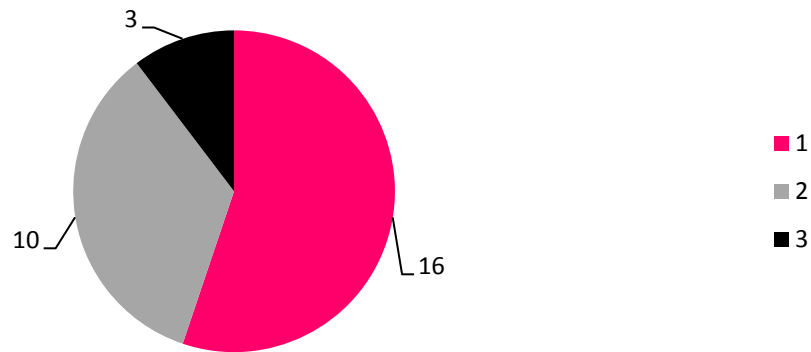
Resident Canton (n=33)



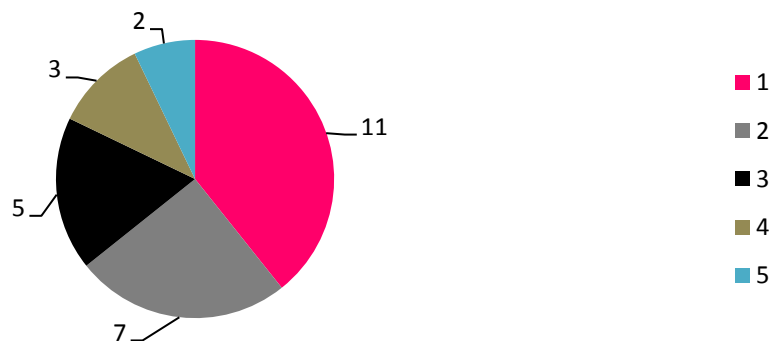
Nationality (n=33)



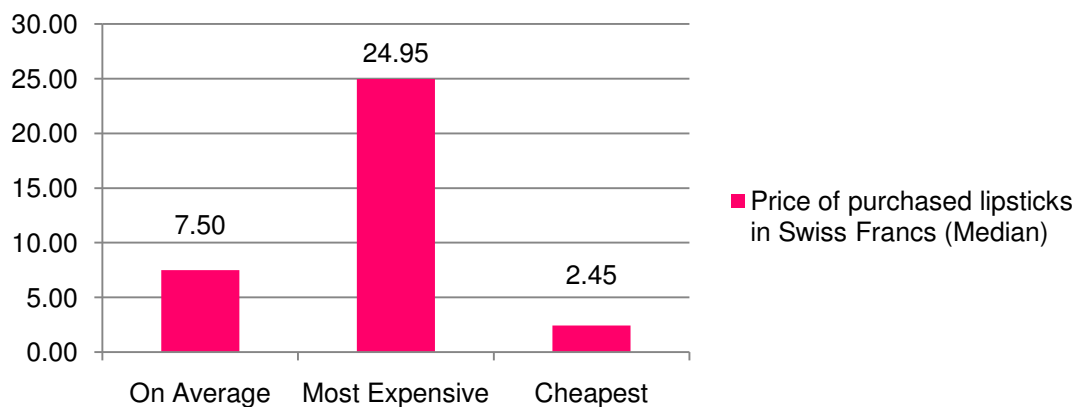
Number of lipsticks purchased in retail store per typical purchase (n=29)



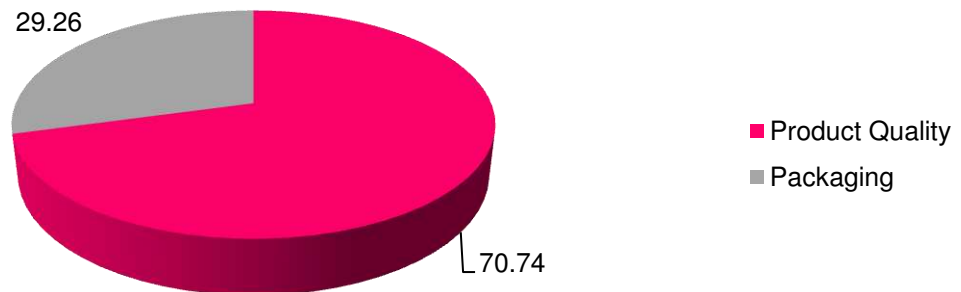
Number of lipg gloss products purchased per typical purchase at retail store (n=28)



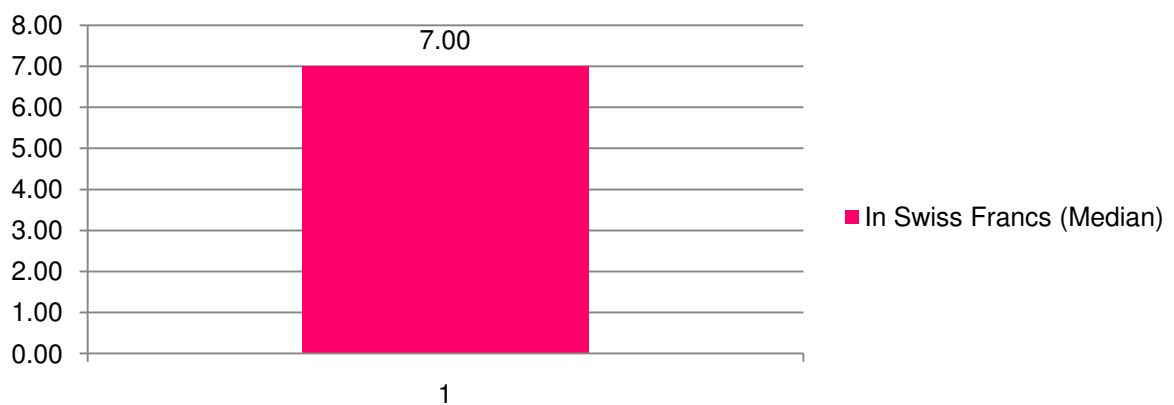
Price of purchased lipsticks in Swiss Francs (n=32)



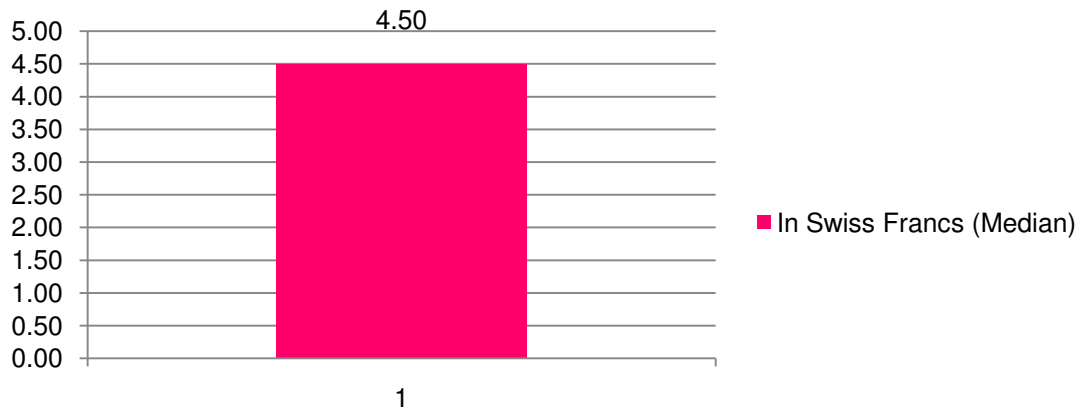
Lipsticks: Influence on purchase decision in per cent (n=32)



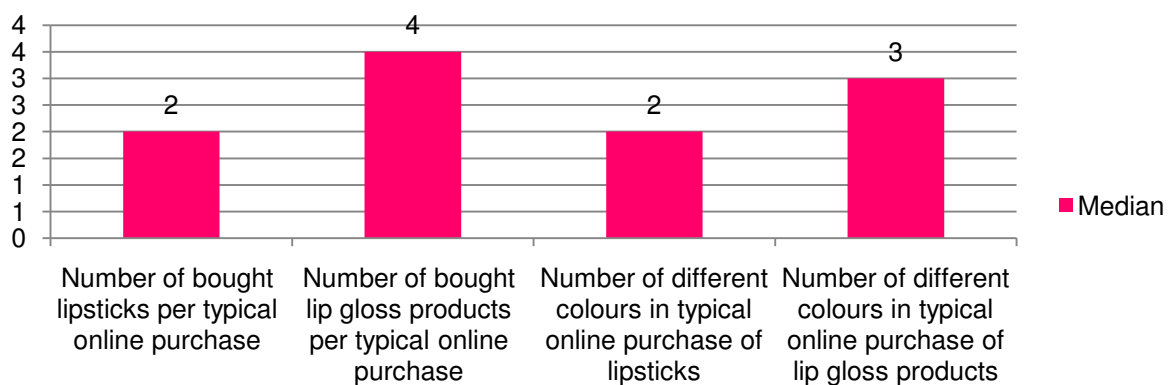
Average spending on a lip gloss product (n=32)



Average spend on shipping fees when buying decorative cosmetics online (n=6)



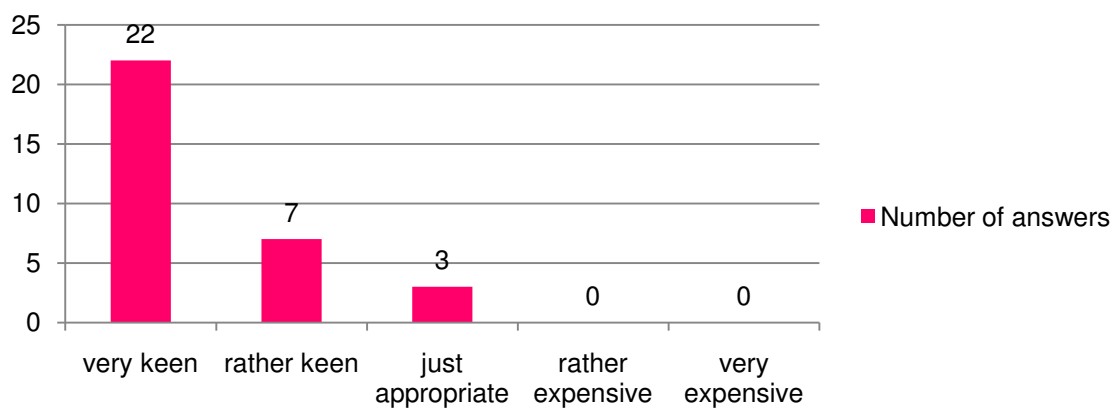
Typical online shopping behaviour regarding lipsticks and lip gloss (n=6)



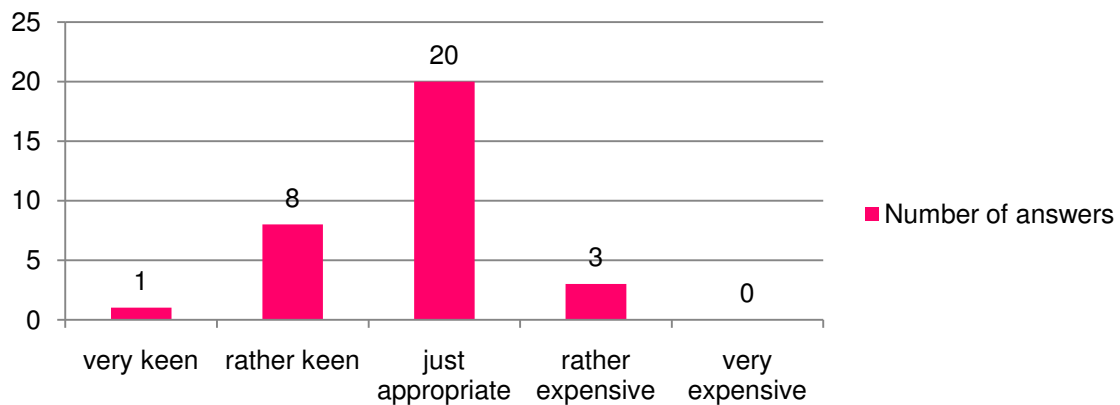
The 3 favourite motifs that best represent the brand lipCat in the view of the participants:



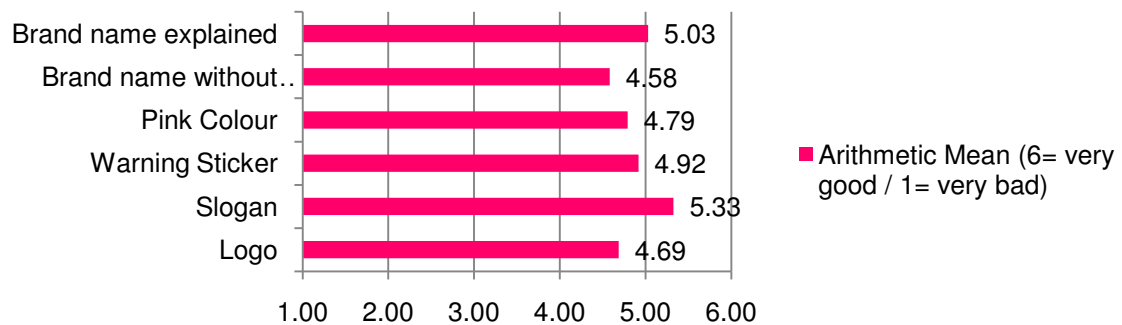
Evaluation of lipCat's pricing model (n=32)



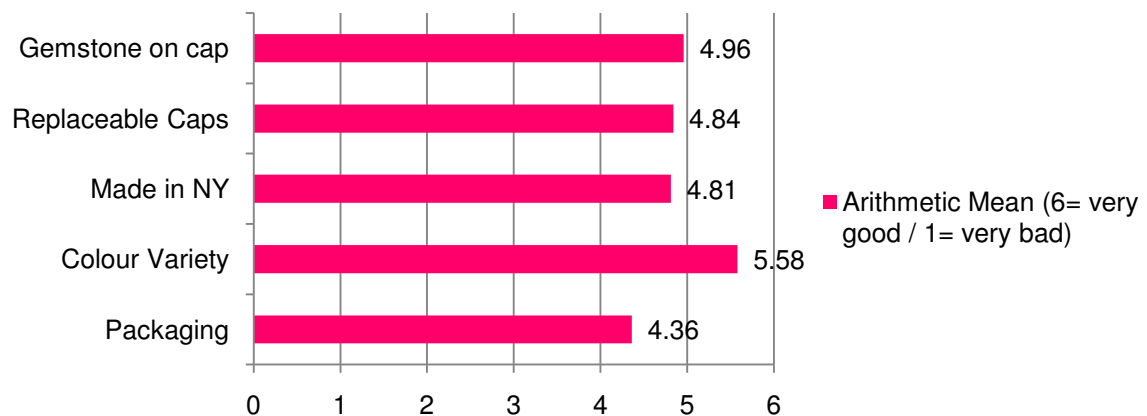
Evaluation of lipCat's shipping flat rate (n=32)



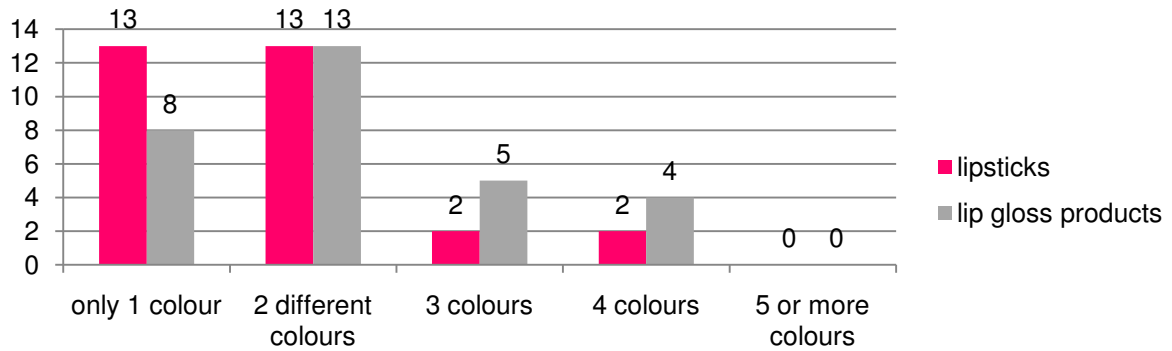
How do you like...? (n=32)



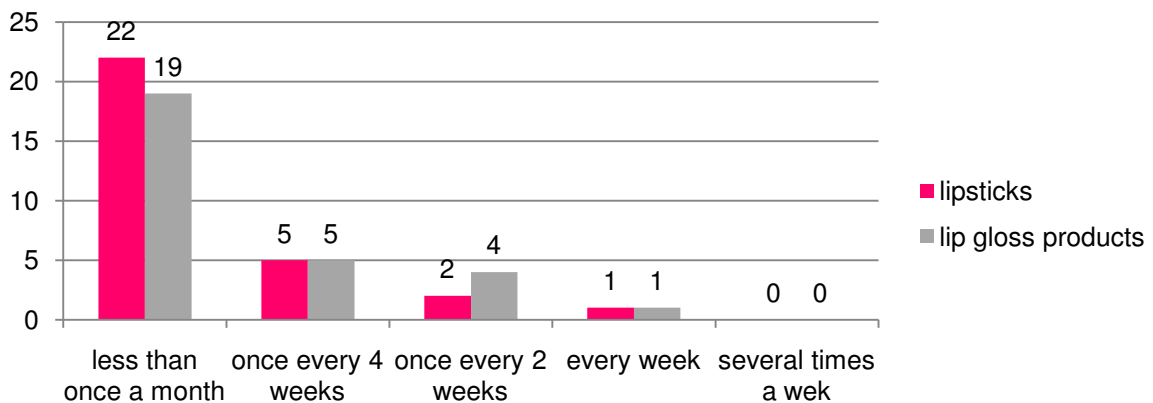
How do you like...? (n=32)



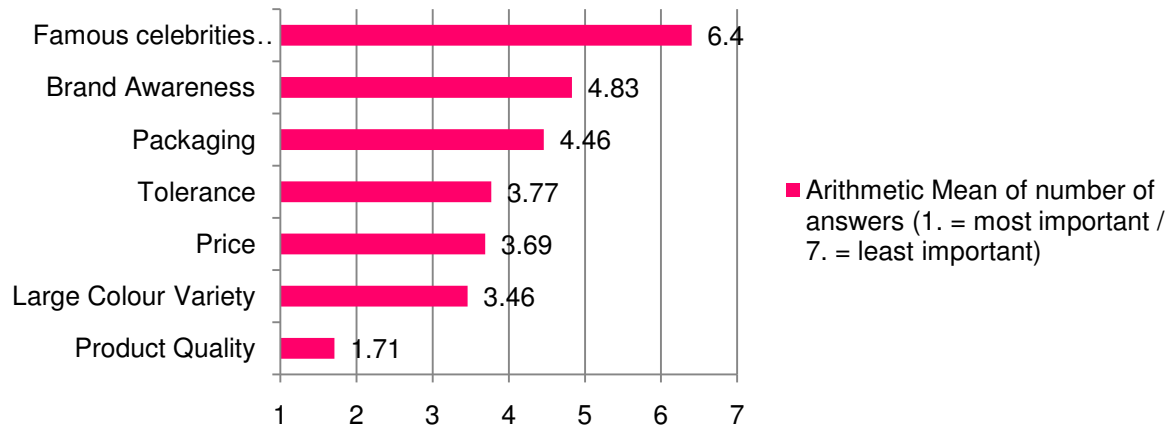
In how many different colours do you typically buy the following products at a retail store? (n=30)



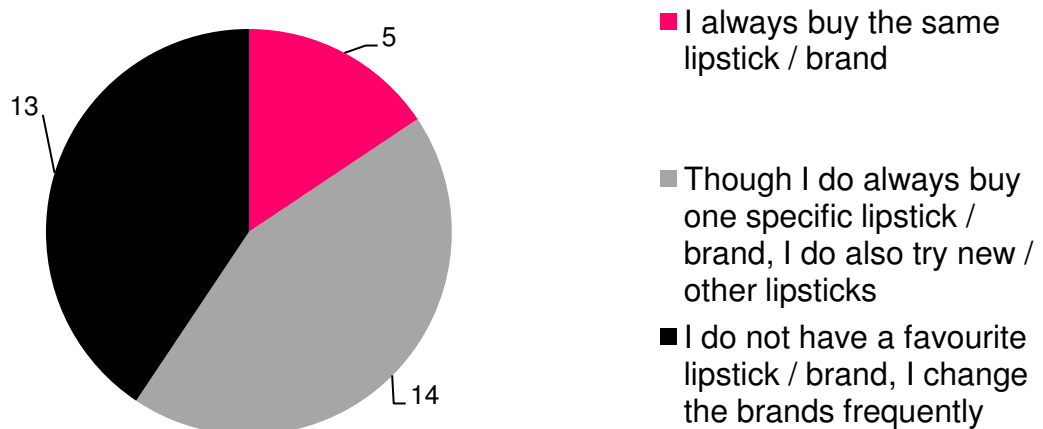
How frequently do you buy the following products at retail stores? (n=30)



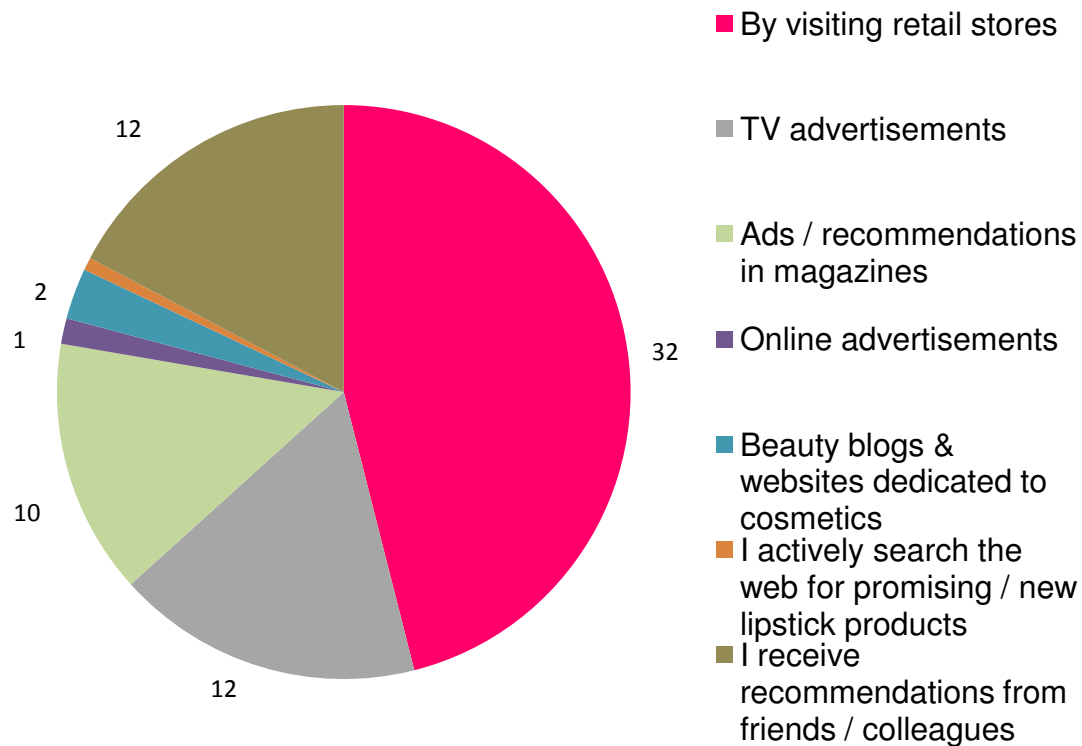
Please rank the following criteria according to their importance to your buying decision of lipsticks. (n=32)



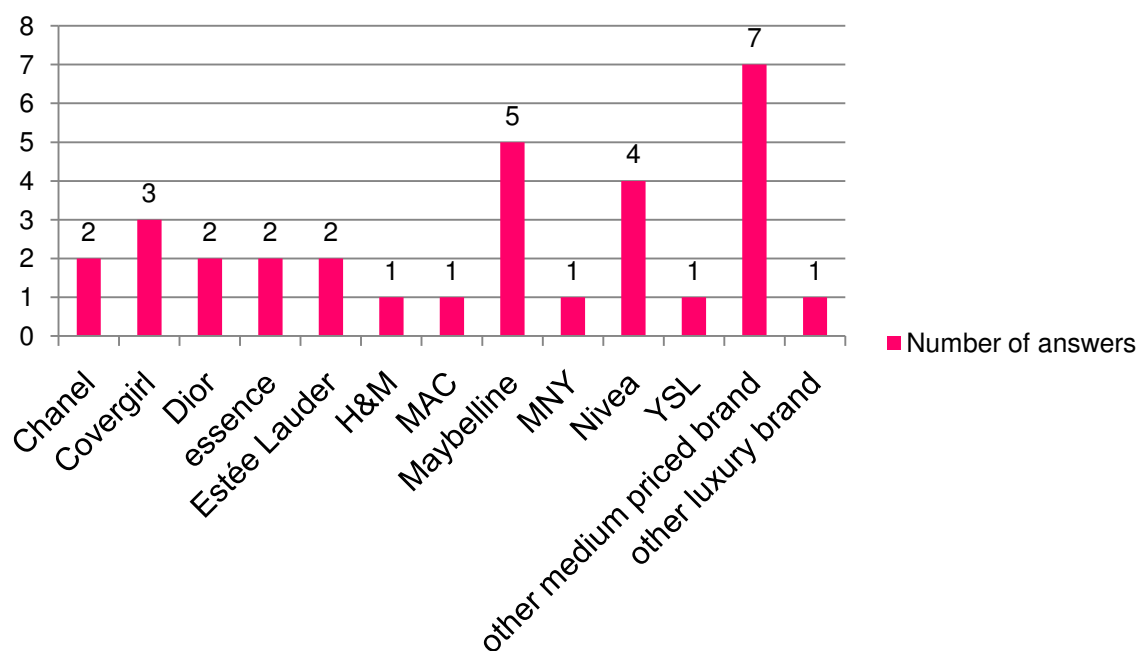
Buying habit regarding lipsticks (n=32, number of answers)



How do you inform yourself about lipsticks? (n=32, multiple answers allowed)



Favourite lipstick brand (n=32)



Provided you do buy lipsticks or lip gloss products online, how often do you do this? (n=32)

